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HIGH-RISK LOGISTICS PLANNING: PROGRESS ON IMPROVING DEPARTMENT OF DEFENSE SUPPLY CHAIN MANAGEMENT

HEARING

BEFORE THE

OVERSIGHT OF GOVERNMENT MANAGEMENT,
THE FEDERAL WORKFORCE, AND THE
DISTRICT OF COLUMBIA SUBCOMMITTEE

OF THE

COMMITTEE ON
HOMELAND SECURITY AND
GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

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HIGH-RISK LOGISTICS PLANNING: PROGRESS ON IMPROVING DEPARTMENT OF DEFENSE SUPPLY CHAIN MANAGEMENT

TUESDAY, JULY 27, 2010

U.S. SENATE,
SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT
MANAGEMENT, THE FEDERAL WORKFORCE,
AND THE DISTRICT OF COLUMBIA,
OF THE COMMITTEE ON HOMELAND SECURITY
AND GOVERNMENTAL AFFAIRS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 2:31 p.m., in room SR-418, Russell Senate Office Building, Hon. Daniel K. Akaka, Chairman of the Subcommittee, presiding.

Present: Senators Akaka and Voinovich.

OPENING STATEMENT OF SENATOR AKAKA

Senator AKAKA. Good afternoon everyone. This hearing of the Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia is called to order.

Aloha and welcome to our witnesses and guests. I would like to thank you all for joining us here today for this hearing, which is on High-Risk Logistics Planning: Progress on Improving the Department of Defense Supply Chain Management.

Senator Voinovich and I have held several hearings on the Department of Defense (DOD) supply chain management, an issue critical to making sure our brave men and women serving in Afghanistan, Iraq, and elsewhere have what they need to be safe and successful. At our most recent hearing in July 2007, DOD was making progress, but there were still challenges that needed to be addressed. Three years later, DOD's supply chain management still remains on the Government Accountability Office's High-Risk List, where it first appeared in 1990.

It is true that DOD's logistics operations are complex and extend throughout the world, but we must remain focused on moving forward to resolve the remaining weaknesses. Longstanding issues such as inefficient inventory management, poor responsiveness to war-fighting requirements, and weak demand forecasting result in high costs.

In May 2010, the Government Accountability Office (GAO) reported that the Defense Logistics Agency (DLA) had over \$1 billion worth of excess spare secondary inventory in fiscal year 2008. We must exercise better stewardship over taxpayer money.

(1)

Even more importantly, DOD's supply chain management is essential to our military forces. It is critical that DOD effectively supply our warfighters, who risk their lives every day, with the right materiel in the right place at the right time.

DOD supply chain management still suffers from inadequate strategic planning. DOD must formulate a comprehensive and integrated Strategic Plan that addresses all of DOD's current and future logistics capabilities and challenges. This is vital to give senior leaders a means to effectively guide logistics programs across the Department and measure results.

DOD has produced multiple strategic plans over the years aimed at improving supply chain management. However, it is unclear how these plans align with each other. The plans also lack some key elements. For example, at this Subcommittee's urging, DOD released a Logistics Roadmap in July 2008. According to GAO, the Roadmap failed to identify the scope of logistic problems, lacked outcome-based performance measures, and did not clearly define how the Roadmap would be incorporated into the overall DOD decisionmaking processes.

In September 2009, Senator Voinovich and I sent a letter to Deputy Secretary of Defense William Lynn expressing our continued concerns about DOD's ability to effectively and efficiently deliver critical supplies to military personnel. We also noted that DOD still had not included outcome-based performance measures in the Roadmap more than a year after its release. DOD responded that the Department was developing a 2010 Logistics Strategic Plan that would update the Roadmap and address GAO's findings. DOD recently released this plan. Although it includes specific logistics measures and key initiatives, I am concerned with how it can be used to achieve DOD's supply chain management goals.

Despite the remaining challenges, I do commend DOD for making progress on important issues. For example, the Joint Regional Inventory Materiel Management Initiative on the Island of Oahu, in my home State of Hawaii, has proven a success. It improves support to the warfighter by reducing customer wait times, providing better asset visibility, eliminating duplicate inventories, and streamlining delivery of parts to end users. The principles learned with J-RIMM have now been applied to other key areas, such as the Inventory Management and Stock Positioning Initiatives at the Defense Logistics Agency.

Again, I want to thank our witnesses for being here today to discuss the 2010 Logistics Strategic Plan and what DOD is doing in working toward removing supply chain management from GAO's High-Risk List.

Senator Voinovich has championed this issue for many years and he is due much of the credit for the progress that has been made. With that, I would like to call on Senator Voinovich for his opening remarks. Senator Voinovich.

OPENING STATEMENT OF SENATOR VOINOVICH

Senator VOINOVICH. Thank you, Senator Akaka. Thank you very much for holding this hearing.

This is, I think, the fourth hearing that we have had in the Subcommittee on this issue, and over the years, I have met with people

at the Department of Defense and in my office and I am glad to see that some progress has been made in this. As I said to Lieutenant General Durbin when he was in to see me recently, I would really like to know from the time that former Under Secretary of Defense Ken Krieg was involved just what we have accomplished. Are we more efficient? Have we saved any money? Are we working harder and smarter?

I will say this, that last month, I had the opportunity to travel to Iraq, and while I was in Baghdad, we visited with Lieutenant General Kenneth Hunzeker and Lieutenant General Robert Cone, and they briefed the delegation on the gradual transition of personnel and equipment out of Iraq. I was encouraged by how the Department is addressing the great challenge posed by the simultaneous drawdown in Iraq and surge in Afghanistan. For those tasked with delivering the right materiel to the right place at the right time, sustaining more than 100,000 troops in Afghanistan, poses a great challenge to everyone.

I just saw the route used to get equipment out of Iraq and to Afghanistan. I can't believe the way they have to go in order to get it in there, because they can't go through Iran, so they have to go all over the moon.

As the supply chain increasingly shifts to Afghanistan, the Department will face a critical test to determine whether the dangerous logistical gaps that emerged during the early days of Operation Iraqi Freedom have been closed and whether progress will continue in the areas of requirements forecasting, asset visibility, and materiel distribution. Again, I was impressed that they seemed to know where everything was. They had it categorized as either going to Afghanistan, coming back to the United States so that we can do some rehabilitation to it, and they are going to leave stuff in Iraq.

The Department must have an effective strategic plan that decisionmakers can use to prioritize, coordinate, fund, and account for the hundreds of existing supply chain initiatives.

In anticipation of this hearing, Senator Akaka and I sent a letter to the Department in September 2009 in which we posed a number of questions about the new Administration's supply chain management priorities. We focused on shortcomings in the Logistics Roadmap that were identified by a January 2009, and Senator Akaka has already mentioned this GAO report.

The response that we got back from Dr. Ashton Carter, Under Secretary of Defense for Acquisition, Technology and Logistics indicated that a new DOD Logistics Strategic Plan would soon be issued and would serve as an update of the existing Roadmap. And again, I am being repetitious, but we are really interested to know about the Department's approach to strategic planning in this area. You had the Roadmap. Now you have the Logistics Strategic Plan. How do they relate to each other? Mr. Estevez, you have been around here for a while and I will be interested, because you were there at the beginning of this, how does this kind of segue into the Strategic Plan that you folks have put together?

Finally, I look forward to hearing from the Department about the measurable improvements in the supply chain management that have resulted from several years of concerted effort. I would like

you to brag a little bit, Mr. Estevez. What increased supply chain efficiencies can the Department demonstrate? What cost savings? Most importantly, though, how are deployed personnel better able to accomplish their missions as a result of past logistics planning? These are the real questions that have to be asked.

I am glad that Mr. Solis will aid in the discussion by providing insight into how many of the initiatives contained in the Department's logistics planning documents are being applied in the field, particularly in Afghanistan.

When we started with this, Secretary Rumsfeld said we would save about \$26 billion if we managed the supply chain right, and you know that this function has been on the High-Risk List since 1990. For the new people on board with the Obama Administration, I have to say that if I were the President of the United States, one of the things that I would do is look at this High-Risk List to see how I could impact it and get items off the list. DOD supply chain management, I think, is one of the most important things that we need to get off the list and I am prayerful that you all understand that and you will give it the very best that you have.

I am pleased that there has been some continuity here, because one of the things that bothered me, and one of the things Senator Akaka and I have been trying to do is to get everybody to put together some kind of a strategic plan over a 5- or 6-year period, because transformation takes a long time. I know that because I was a mayor and I was a governor. It just takes a long time. And so often around here, one Administration comes in, they have a plan. The next generation comes in and they start all over again. But it appears we have continuity, and I am going to be really interested to hear from you how this thing is moving along and where do you see the light at the end of the tunnel.

Thank you very much, Senator Akaka, for holding this hearing. Senator AKAKA. Thank you very much, Senator Voinovich.

Now you have heard the history of our work along these lines, and the reason for the history is it is changing, but we want to move it as quickly as we can here.

I would like to at this time recognize and introduce our panel, so it is my pleasure to welcome Alan Estevez, Principal Deputy Assistant Secretary of Defense for Logistics and Materiel Readiness, and Jack Edwards, Director of Defense Capabilities and Management at the Government Accountability Office. Mr. Edwards is accompanied by William Solis, also Director of Defense Capabilities and Management in the Government Accountability Office. Mr. Solis, it is good to see you again, always.

Mr. SOLIS. Thank you.

Senator AKAKA. It is the custom, as you know, of this Subcommittee to swear in the witnesses, so I ask you to please stand and raise your right hands.

Do you solemnly swear that the testimony you are about to give this Subcommittee is the truth, the whole truth, and nothing but the truth, so help you, God?

Mr. ESTEVEZ. I do.

Mr. EDWARDS. I do.

Mr. SOLIS. I do.

Senator AKAKA. Thank you. Let the record show that the witnesses answered in the affirmative.

I want our witnesses to know that although your remarks are limited to 7 minutes, your full statements will be included in the record.

Mr. Estevez, will you please proceed with your statement.

TESTIMONY OF ALAN F. ESTEVEZ,¹ PRINCIPAL DEPUTY ASSISTANT SECRETARY OF DEFENSE FOR LOGISTICS AND MATERIEL READINESS, U.S. DEPARTMENT OF DEFENSE

Mr. ESTEVEZ. Thank you, Chairman Akaka and Senator Voinovich. Thank you for the opportunity to appear before you to discuss the current status of DOD's supply chain management and logistics processes and to review with you the efforts we have taken to address areas of risk. As you mentioned, I have been here for all four of the hearings and we are dedicated to doing this, like both of you do.

DOD has made significant measurable progress over the past 3 years, since the Department was last before this Subcommittee, and I believe my testimony today will show our continued dedication toward implementing a comprehensive end-to-end logistics strategy that provides effective support for our deployed warfighters and provides value to the American taxpayers who pay for that support.

Before I address those areas, I would like to compliment your respective staffs, your Office of Management and Budget (OMB), and GAO, who continue to work with us in addressing the Department's supply chain management. I would also like to specifically acknowledge from GAO, both Bill Solis and Jack Edwards. Our collaboration has contributed significantly to the successful improvements in the Department's supply chain and logistics support.

The DOD supply chain is unparalleled in its scope of operations and the complexity of its mission. Over one million uniformed civilian and contract employees support all aspects of the Department's supply chain, managing \$90 billion in inventory, processing over 117,000 national orders for materiel daily, keeping 15,000 aircraft, 285 ships, and 30,000 combat vehicles capable of fulfilling their mission, and in many cases performing this mission while deployed in harm's way.

The DOD logistics mission is to provide globally responsive, operationally precise, and cost effective joint logistics support for the projection and sustainment of America's warfighters. Every day, DOD logisticians support troops forward deployed in some of the world's demanding environments and are frequently called upon to support operations on short notice in parts of the world where we have little or no presence.

Most notably today, DOD logisticians are key enablers to simultaneously executing the drawdown of our forces in Iraq and to providing full spectrum support to our mission in Afghanistan. Since the President announced the Iraq drawdown time line, we have systemically been responsibly drawing down our force in Iraq. To date, we have moved out 32,000 pieces of rolling stock, closed over

¹ The prepared statement of Mr. Estevez appears in the Appendix on page 19.

300 bases, and are on track to bring the force down to 50,000 troops by August 31, 2010. This has been accomplished by simultaneously sustaining and rotating the remaining force in Iraq, no small feat. At the same time, we have moved the majority of the 30,000 troops and their equipment to Afghanistan as the President directed last December while providing the needed sustainment in food, fuel, medical supplies, construction materials, clothing, and spare parts.

I just returned from Afghanistan 2 weeks ago, along with Dr. Carter, I might add, who was looking at the logistics lay-down. Every place I visited, the troops and their commanders reported that, for the most part, they are receiving the materiel as they need it, when they need it.

Since the troop increase was announced, we have moved over 17,000 relocatable buildings to house our forces. We are meeting a 1.1 million gallon-a-day demand for fuel for United States and coalition forces while feeding 435,000 meals a day to U.S. troops on the ground. In addition to moving the force, their equipment, and their needed supplies to a landlocked country, we have also moved approximately 4,000 mine-resistant, ambush protected all-terrain vehicles (MATVs), and a significant number of Mine resistant Ambush Protected (MRAP) variants to protect our forces as they perform their mission. We are sustaining the readiness of all MATV and MRAP vehicles at over 90 percent, and that is with battle damage as the major factor in decreased readiness.

Even with this enormous challenge on our plate, DOD logisticians were still able and ready to support disaster relief earlier this year in Haiti.

Since we last appeared before this Subcommittee, we have issued the DOD Logistics Strategic Plan incorporating our major supply chain initiatives. This plan is synchronized and consistent with both the 2010 Quadrennial Review and the DOD Strategic Management Plan published in July 2009. It incorporates logistics-related priorities, outcomes, goals, measures, and key initiatives depicted in the DOD Strategic Management Plan while adding more detailed information relating to logistics strategy. Actual progress against each of the plans' top-level performance targets will be collected and reported via the DOD Chief Management Officer level dashboard and reviewed quarterly.

The Logistics Strategic Plan incorporates and builds on our previous efforts, including the 2005 Supply Chain Improvement Plan and the 2008 Logistics Roadmap, while simultaneously guiding our future actions as there are successes and improvements in the three GAO supply chain high-risk areas: Forecasting, asset visibility, and distribution.

With respect to forecasting, we have made considerable progress in plan accuracy with the measurement of forecasting demand when compared to actual need. The Defense Logistics Agency (DLA), which satisfies 95 percent of customer demands, has seen demand forecast accuracy improve by 24 percent for key items. That is complemented by improvements we have seen in our readiness-based sparing efforts, which use analytics to establish inventory levels and locations to maximize readiness.

Using a commercial readiness-based sparing tool, the Navy is currently determining aviation on-board spares for several of its aircraft carriers and has noted \$216 million in cost savings per carrier for the six carriers outfitted and a 50 percent reduction in high-priority requisitions. This was achieved during a 7 percent increase in operational tempo flight hours.

In the area of asset visibility, we continue to use active Radio Frequency Identification (RFID) technology, to provide us with needed visibility for our critical cargo moving to Iraq and Afghanistan. At DLA's Defense Distribution Depot-San Joaquin, where we are using passive RFID, we have seen a 62 percent decrease in receiving process errors for small parcel shipments on passive RFID-enabled receiving lanes, and at Pearl Harbor, we have seen a ten-day reduction in response time for our most critical requisitions.

The Distribution Process Center is driving process improvements that have significantly enhanced overall materiel distribution for our deployed forces and in the United States. For example, the Defense Transportation Coordinator Initiative has produced \$91 million in cost avoidance in key transportation expenses while on-time delivery is running better than 96 percent.

In closing, as we press forward with executing the Logistics Strategic Plan, the Department remains committed at the most senior levels to addressing our supply chain processes in order to support our warfighters at best value for the taxpayer. We continue to make real and measurable improvements to that end.

Again, I thank you, Mr. Chairman and Senator Voinovich, for the opportunity to testify today on the important issues associated with the DOD supply chain and logistics and I will be happy to answer any of your questions.

Senator AKAKA. Thank you very much, Mr. Estevez.

Mr. Edwards, will you please proceed with your statement.

TESTIMONY OF JACK E. EDWARDS,¹ DIRECTOR, DEFENSE CAPABILITIES AND MANAGEMENT, U.S. GOVERNMENT ACCOUNTING OFFICE, ACCOMPANIED BY WILLIAM M. SOLIS, DIRECTOR, DEFENSE CAPABILITIES AND MANAGEMENT, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Mr. EDWARDS. Mr. Chairman and Senator Voinovich, thank you for this opportunity to discuss DOD's progress and challenges in strategic planning to resolve longstanding problems in the supply chain management area.

As you are aware, supply chain management and other logistics functions are critical to supporting military forces in Iraq, Afghanistan, and elsewhere. Also, they constitute a substantial investment of resources. I am here today with my colleague, Bill Solis, that you mentioned earlier. Our GAO reviews cover supply chain management and other logistics areas. Mr. Solis's work tends to focus on the Combatant Command's and supporting the warfighter in operational situations. I am responsible for issues such as inventory management and also weapon system sustainment.

¹The joint prepared statement of Mr. Edwards and Mr. Solis appears in the Appendix on page 34.

As requested, we will focus on three issues today: One, DOD's prior strategic planning efforts; two, key elements in the new plan; and three, opportunities to improve that plan.

Regarding DOD's prior efforts, DOD has issued strategic plans for logistics and supply chain management since at least the 1980s. The 2008 Logistics Roadmap that we have been talking about is one example of such a plan. While it documented goals, joint capabilities, objectives, and numerous initiatives and programs, we found that it was missing some elements that we would expect in a strategic plan. Those missing elements included things that you just mentioned earlier, such as outcome-based performance measures and descriptions of problems and capability gaps. We recommended to DOD that it include these missing elements in future updates to the Roadmap and DOD concurred with that, and we have had discussions with them.

Earlier this month, DOD issued its new Logistics Strategic Plan, our second issue that we would like to discuss. The new plan identifies the Department's logistics mission and its vision. It also reiterates Department priorities that have been stated in important documents such as Quadrennial Defense Review and in the Strategic Management Plan for business operations. The Logistics Strategic Plan contains high-level goals. There are four of those, and for each one of the goals, it has success indicators, performance measures, and key initiatives. And the goals and initiatives that are mentioned in there, many of those we have investigated in the past and we have identified some of those needing management attention.

While all four goals do touch on supply chain management, goal four explicitly deals with that issue. The discussion of goal four very briefly lists four success indicators, three performance measures, and 12 key initiatives.

Now that we discussed some of what the plan has, let us move to the third area or third topic, and that is opportunities that we see that might help move this plan along a little more. The opportunities fall into two general categories or types. First, the plan lacks detailed information on how and when the goals and initiatives will be achieved. For example, the plan does not identify performance targets or timetables. It does not include logistics problems or capability gaps. And also, there is no mention made of what types of resources are going to be required in order to implement this plan.

The other area of improvement concerns addressing the absence of linkages between DOD's DOD-wide Logistics Strategic Plan and the service-specific and other types of plans and activities for accomplishing and improving supply chain management. Similarly, it is not clear how this plan will be used within DOD's existing logistics governance framework to help make budgetary and other decisions.

The continued absence of important details from the Logistics Strategic Plan may make it difficult for DOD to efficiently implement this plan and to fulfill the Department's vision of providing a cost effective joint logistics support for the warfighter.

Mr. Chairman and Senator Voinovich, Mr. Solis and I would be happy to answer any questions that you have at this time.

Senator AKAKA. Thank you very much, Mr. Edwards.

Mr. Estevez, I commend DOD's efforts to improve the efficiency of its logistics processes, but the recently released 2010 DOD Logistics Strategic Plan is intended to provide strategic direction on future logistics improvement efforts. Would you please describe the plan's goals and key measures and how the plan will be used by senior leadership in the logistics decisionmaking process?

Mr. ESTEVEZ. I will be happy to, Senator. Thank you. Let me start off by saying the Logistics Strategic Plan encompasses the gamut of logistics activities, more than just the supply chain activity that we are focused on, because it is a holistic continuum if you look at it. You can't have a good logistics system unless you have a good supply chain.

It has four goals in it. First, there is support for the warfighter, support for our deployed forces and what is going on in our current contingency operations.

Second, related to that is management of the contractor workforce that we have out there and doing that better in the future. We all know that we have had some problems in the past and we believe we have got our arms around that going forward, but not just for this contingency, for future contingencies past this one. So we put in a process. We put in planning processes out at our CoComs, recognizing that we are going to have a contractor workforce on the battlefield with us going forward.

Third, is looking at the acquisition process for our weapons platforms and building in a sustainment capability so that when you design a platform, you are thinking about the long-term operating costs of that platform and what you need to do today in the acquisition process. Acquisition people tend to focus on it until it is bought and then my folks worry about it after that. But the design affects the long-term costs, so we are trying to instill logistics and sustainment thought into the early part of that process, and Dr. Carter recently signed out a memo to the service acquisition executives ensuring that at Defense Acquisition Boards, we will be discussing sustainment strategies as well as the acquisition strategy for a particular platform.

And fourth, are the initiatives related to the supply chain.

Inside that and for each of those, we have what the measures of our success will be, and then there are initiatives under each one of those goals. Frankly, under each one of those initiatives, there will be sub-targets that will relate up to the higher target.

I co-chair with the Director of Logistics for the Joint Staff, Lieutenant General Kathy Gainey, something called the Joint Logistics Board, which brings together the senior logisticians in the Department of Defense from the service staffs, from the service Materiel Commands, from U.S. Transportation Command, and from the Defense Logistics Agency, and at that board we discuss how we are going forward and the issues that we need to resolve to make all those things come into compliance, and then the services manage their budgets and how they do their business underneath that structure.

Senator AKAKA. You last mentioned about the supply chain, Mr. Estevez. What are some of the major supply chain management challenges that DOD still needs to address?

Mr. ESTEVEZ. Let me start off by saying, and it is going to be mostly in the area of inventory management and procurement of that inventory. So our ability to forecast demand needs to be better. We have a number of initiatives, things like I discussed in my opening statement, readiness-based sparing, to do that. We are drafting, as required in last year's National Defense Authorization Act, a comprehensive Inventory Management Strategy. We are using that opportunity to actually go after some focused areas so that management not only of the forecast, and the forecast should be better at our industrial activities, at our maintenance depots, in other words, than out in the deployed force, where things like environment and battle damage and unintended consequences change the demand plan accuracy. But collaboration between the buyers, the Defense Logistics Agency and the Materiel Commands, and the users of that materiel, that is probably No. 1.

Using our systems, and we have issues in some of our systems—DLA probably has the best Enterprise Resource Planning (ERP) that is out there—other services are working to implement—to gather the data needed to more timely affect buys, so that we don't buy more than we need. Even though that materiel may be consumed down the road, it is a lost opportunity cost that the money could have gone to something more important. So that is probably the biggest area that I say that we can really affect big change to the benefit of both the warfighter and the taxpayer.

The final area we continue to work on is visibility. We have pretty good visibility, and frankly, I think our inventory accuracy is as good as anyone out there in the commercial sector, given the amount of materiel we have and given the fact that we deploy to places like Helmand Province, where tracking it can be difficult. But we continue to work those processes, as well.

Senator AKAKA. Thank you. Let me call on Senator Voinovich for his questions.

Senator VOINOVICH. I guess the first question I would have is that you got started with this process. You had the Roadmap. Now you have the Strategic Plan. The Department has been criticized in terms of including outcome-based performance metrics in strategic planning documents and, GAO says, failed to include adequate outcome-based performance metrics in both the Roadmap and Logistics Strategic Plan. Why is this the case and how can this be remedied? Although I can't believe that, Mr. Estevez, if I said to you, how have you judged your performance over the last several years and what criteria did you use? Now, I know that one of the criteria is customer wait time, but what would you point to to show what metrics were used to evaluate the performance of your operation in achieving the goals that were set? And do you have a difference of opinion with GAO in terms of their analysis of the issue of metrics that you are using?

Mr. ESTEVEZ. Let me start at the top of that, how I would measure, and as you pointed out, customer wait time has been our consistent measure throughout. But I would go past that to readiness and a customer satisfaction metric. So if I look at our capabilities, if I look at the performance of a logistics system as what it is doing right now in sustaining our forces and deploying our forces to Af-

ghanistan, which is about as hard a place as we could have picked to go to war, short of Antarctica, maybe——

Senator VOINOVICH. In fact, this morning on the plane coming in, I had a public document that shows the circuitous route you have to go through. It is just amazing. OK. Go ahead.

Mr. ESTEVEZ. And there are dangerous countries around there that we are going through and diplomatically problematic countries, to say the least. So nonetheless, and let me just give you an example, in May of this year, the Marines in Helmand had a fire in their supply support activity, in the activity that sustains a good chunk of the Marine forces. There are other ones in Helmand Province. A massive fire destroyed a big chunk of the materiel that was there. Nonetheless, we were able to reconstitute that in pretty much no time and we had a 1 percent uptick in readiness while we were doing that reconstitution to the point where—and I was talking when I was there 2 weeks ago—to the Marine Logistics Command, a Marine one-star on the ground, who told me he had to put the brakes on the logistics system for pushing the supplies to him so that he could target the supplies he really needed right now and get them out into the field. That, to me, shows a logistics system that is working the way it is supposed to work for our deployed forces. I can likewise give you good stories on Iraq——

Senator VOINOVICH. Have you ever sat down with anybody that was in Iraq in the beginning to kind of compare and contrast the situation that you had there versus what you have in Afghanistan?

Mr. ESTEVEZ. In fact, today, and I guess he wasn't there right at the beginning, the Director of Logistics for General Rodriguez, the U.S. Forces Director of Logistics, was also General Petraeus's Director of Logistics and is still there in Afghanistan, in Iraq in the 2007 and 2008 time frame. So that is not the beginning. And certainly I am around many logisticians who were there and it is leaps and bounds better than we are doing.

There are a number of reasons for that. Some of those are political reasons and some of those are just that we are looking long and that we have learned lessons and we are more flexible and more adaptable, and that is all good. To me, going forward, the trick is to codify those good things so that we incorporate them, recognizing that you don't want to get down to fighting the last war, the next war, and everything has to be dynamic. And frankly, if you go to the commercial sector and look at great supply chains, they have to adapt, as well.

But there is a massive difference between what we were doing early on and what we are able to do right now in Afghanistan and what we are doing drawing down, including putting in depots and looking at those capabilities.

Going back to your measurements, that would be how I would say, yes, we are doing great. With that said, I would also say GAO has some legitimate arguments that there are areas we could do better. I would call those the efficiency areas, more of the business operations versus direct support for the warfighter. Again, that is my No. 1 metric.

But I will go back to those things I talked about. Forecast accuracy, we could do much better and we are driving to do that. Some of those are not necessarily outcome-based metrics, so it is cus-

tomers readiness is the outcome-based metric. I need a cross-metric underneath that and driving that relationship is not as easy as one would like in our business.

So, I think you had a third question in there that I may not have answered.

When I look at the way these plans have been drafted, we drafted the first plan to address some of the things that were laid out on the High-Risk List and we are still driving to those initiatives and they are consistent over time. As you point out, this is a complex area and transformation is not overnight. I wish it was, so I wish we could get off this list more than anyone probably out there right now.

Second, the Roadmap was a list of all initiatives across the Department, not just the ones directed at that list. They are encapsulated inside the Strategic Plan. So there is a continuum of efforts as we move forward, and I personally think this is a pretty good plan. Mr. Edwards has laid out some areas where we could improve. We will look at those going forward. But as I have discussed with him, I would also look at the initiatives and how we are doing and driving them underneath, the cost savings that we are garnering, the increases in the response time, etc., and I think that is what we need to be measured on.

Senator VOINOVICH. In my next round of questions, I will give you an opportunity, Mr. Edwards and Mr. Solis, to comment on what Mr. Estevez had to say.

Senator AKAKA. Thank you. Yes, we will have another round here.

Mr. Edwards, DOD supply chain management has been on the GAO High-Risk List for 20 years. DOD, GAO, and this Subcommittee have been committed to this issue. Can you tell us what key factors GAO plans to examine when deciding whether to retain DOD supply chain management in its upcoming High-Risk List series update?

Mr. EDWARDS. Thank you, Mr. Chairman. We have mentioned some of those issues in the past, and also Mr. Estevez has mentioned some of them. We have had numerous conversations. You have urged us to talk to one another. Recently, Mr. Estevez and I met with Beth McGrath, Deputy Chief Management Officer, to discuss what types of steps might need to go forward. We recognize that there are some issues that are still out there, such as visibility over some of the assets, also looking at the supply chain projections of what are we going to need into the future. And Mr. Solis will talk about some of the things that he has recently observed in some of his trips to Iraq and Afghanistan to complement the things that I am talking about.

But as we move forward, one of the things that we are particularly looking for, Mr. Estevez has mentioned that they will be issuing a mandated report that was part of the National Defense Authorization Act of 2010. In that report, DOD is required to address eight issues, and among those issues are some of those very things that originally led DOD to have the supply chain management or initially, at least, the inventory part of supply chain management put onto the High-Risk List. So we hope to see that plan

when it comes out and hope that some of these issues will be addressed.

Mr. SOLIS. Could I just jump in here just a little bit, too?

Senator AKAKA. Mr. Solis.

Mr. SOLIS. I think a couple other things, just very quickly, and I think Mr. Estevez alluded to one. I think we can focus on Iraq and Afghanistan, and let me say, I think for Iraq, I think in terms of the briefings that you got, Senator Voinovich, I am in agreement that I think the drawdown is moving ahead as scheduled and I think everything from the disposition of equipment to the movement of personnel, those things, I think, are on time and moving quite well.

I think Afghanistan, I think from my view and some of the work that we have done, the preliminary work, granted, it was back in December, we still have to see how that is going to turn out. I have some different things in terms of some of the unit readiness pieces that I have picked up which I testified about. Again, that was back in December. We are at a different point in time and we are going to be taking a look at that. So again, we will be looking at that in terms of making the assessment of the high risk.

I think the other piece, and I haven't thought this through completely, but the other thing I think, not only just for logistics but particularly the supply chain, in terms of the workforce, that has become a contractor workforce, particularly for the current operation. When you look at the transportation, the distribution, that is all becoming very integral in terms of the fuel and supplies. How is that going to be built into future operations?

And so I think the kind of thing that Mr. Estevez talked about in terms of codification of these kinds of things, I think are the kinds of things that we are going to be looking for, as well.

Senator AKAKA. Mr. Solis, distribution of materiel to deployed forces in Afghanistan presents distinct challenges due to the country's location, infrastructure, and its terrain. Would you please discuss some of these key challenges.

Mr. SOLIS. And again, as Mr. Estevez alluded to, Afghanistan is probably the worst nightmare for a logistician to try to plan an operation, and so by many accounts, they have done a great job. In terms of some of the challenges going into this, I mean, there were things like limited visibility over shipments. I think there is limited RFID capability coming out of Pakistan. I think on the Northern distribution route, because of security concerns by other countries, there is limited visibility over that. It takes a number of days to get those shipments from the United States through those different routes. And then when they get within country, there are even periods of time where they may have to wait outside the gates because of security considerations. So there is a long stretch of time just to get the equipment and supplies in.

I think in terms of just working in the North Atlantic Treaty Organizations (NATO) environment, our priorities are not necessarily the other NATO countries' priorities in terms of getting key equipment or key supplies within a particular base.

There were limits on the infrastructure at the air fields, the ramp space. Some of that was going to be taken care of during the surge, but there were some other things that were not going to be

addressed during the surge. We still had reports of some units, and this is going back to the prior surge, to the spring and the summer, that still had not received all of its equipment and supplies. Again, we haven't looked at that going forward, and let me say I have attended different drills or planning conferences where I think the Department and the Army and the Marine Corps have sat together to figure out how they are going to do this. So we are going to have to take a look at that as to how it is working.

But I think there are a number of challenges. Afghanistan is so much different than Iraq in terms of those challenges, but I think there are a number of things that are there that could limit the ability of the supply chain to work effectively.

Senator AKAKA. Thank you very much, Mr. Solis.

Senator Voinovich, do you have further questions?

Senator VOINOVICH. Yes, I do.

You have heard the testimony of Mr. Estevez. Your testimony is very impressive, Mr. Estevez, about what has happened. On a scale of 1 to 10, Mr. Edwards, going back to, say, 2006 or 2007—you pick the date and tell me where it is—what would you rate the improvement in their performance in terms of the supply chain management challenge?

Mr. EDWARDS. I think I would rather defer this one to Mr. Solis. He has had a lot more of the time over in Afghanistan and he is better positioned to answer the specific issue about how Afghanistan has changed, if that is all right with you, Senator.

Senator VOINOVICH. That is fine. I mean, I go back to anecdotal stuff, when we were buying and selling supplies at surplus, not having a lot of the equipment that was needed for the warfighter, etc. That was really awful. So, Mr. Solis, why don't you share with me what you think is really going on and if they really wanted to do a better job, where would you focus in on?

Mr. SOLIS. Well, let me just start, again, with the plan, if I may first. The plan itself, I think was alluded to, that there are metrics out there. In fact, one of the things that I still think is lacking are overarching metrics. I will give you one example.

One of the things that is in the plan is cost effective, yet I can't find anything in the plan—

Senator VOINOVICH. Wasn't that the same thing you had to say about the Roadmap?

Mr. SOLIS. Yes, sir.

Senator VOINOVICH. OK.

Mr. SOLIS. And so let me say this. I was pleased to see a lot of the overarching plan that is there today covers a lot of the same things that we have recommended that the Department look into beyond just the supply chain, planning for the use of contractors in future contingencies, not just Iraq and Afghanistan, looking at their business processes for urgent needs, supply chain management. So there are a lot of things that are very positive in that plan from maybe the priorities.

But it is hard even there to tell which are the largest priorities. It is hard to tell which ones are going to provide the most cost effective solutions. For example, I think RFID—

Senator VOINOVICH. I was just going to ask about that.

Mr. SOLIS [continuing]. Is one that has a dual purpose, an increase in visibility and potentially providing cost effectiveness. And we are still looking for some of that. And I think those are the kinds of things that if they were added to the plan, and I know those are things that are going to be added, I think, at some point, according to even the latest version I see now, I think it would go a long way in terms of the plan itself. And I think that would be very helpful in terms of Members of Congress, different folks who have vested interests, decisionmakers, about how the Department is doing overall with respect to a lot of the initiatives and the goals now that they have set out in this plan.

So I think there are still things, there are still some details, particularly the metrics. I think another one might be in terms of how they will continue to evaluate this, which is one of the things that we talk about in any plan, you have to be able to evaluate it. But again, there are a lot of things out there in this current plan that I see as positives in terms of the priorities and the kinds of things that they are going after. But I don't know—and one more, if I could give—in the planning part for future contingencies, I think the metric is—all the contractor equities will be reviewed, but it doesn't say by when. It doesn't say how it is going to be done. So I think there are some of these details, and even if it was in an appendix somehow or something where folks could look at that, I think that would help a lot.

Senator VOINOVICH. How often do the two of you talk, Mr. Estevez and Mr. Solis and Mr. Edwards?

Mr. SOLIS. We talk quite a bit.

Mr. ESTEVEZ. We do talk quite a bit.

Mr. SOLIS. In fairness, I think we have a running conversation on different things. We agree and disagree on different things. I try to tell them where I think things are moving well. I think, again, the Iraq drawdown is moving pretty well. I still am not sure about Afghanistan. I mean, I know there are a lot of positives that are happening there. Don't get me wrong. But I think in terms of is it as good as it could be or are we doing the things—everything that we should be doing, I think that—and we are doing some work that will try to shed some light on the current efforts.

Senator VOINOVICH. One of the things that Senator Akaka and I have done on a couple of instances is we have really worked with GAO and the agency that GAO is reviewing. I think in the whole Department of Homeland Security, for example, the question was, are they moving forward, are they making progress, in integrating the Department's functions? We had hearings where DHS said, we are doing one thing and GAO said DHS was doing another thing and there wasn't a meeting of the minds. So we have been trying to get them together to kind of get a consensus on what needs to be done. A more narrow initiative would be security clearance process, which we are hoping gets off the GAO High-Risk List.

But the fact is that the agency and GAO have sat down. They have talked to each other. They have reconciled some differences. They have a plan. There is a meeting of the minds as to what needs to be done, and then you have something that you can look at and there is an agreement on what the metrics should be. Now, I am sure that is a lot of work, but it seems to me that if you

haven't gone through that exercise, you ought to begin it and figure out just here is what we are doing, and you talk to each other and try to get, as I say, some meeting of the minds in terms of what the metrics are going to be and what is going to be accomplished, and from my selfish point of view and Senator Akaka's and the country's, when are you going to get off the High-Risk List and what is it going to take in order for it to happen?

Mr. SOLIS. And I would say again, I think for us, we can make the recommendations. I can talk to Mr. Estevez. Ultimately, Mr. Estevez, and the Department have to decide which route they are going to go.

Senator VOINOVICH. Yes, and the other thing I am interested in knowing if you are not able to hit your targets, is it because you are not getting the budget support that you are supposed to be getting from the Department, or are we doing something over here in Congress that is standing in your way. What are the hurdles that you are having to get over, that if you didn't have those hurdles, you could be moving at a quicker pace than you currently are?

Mr. ESTEVEZ. Let me just address a couple of things there. If you go back in time when we first developed the High-Risk Implementation Plan, Mr. Solis, I, and OMB, crafted that together, and at one point, we were meeting probably quarterly, if not more. We are not quite at that point now, though we see each other quite often. When the Secretary announced his effort to drive efficiencies in the Department, I asked both of these gentlemen to come over and meet with me and look for ideas on where we could do it. So there is definite collaboration going on inside the Department.

When we agree, that is easy. When we disagree, we disagree on some of the metrics, we are going to go where the Department needs to go. And we think we are doing the right thing. So it is not that I am trying to not do what GAO says. It is where we have a disagreement over technique.

For some of the things, I would love to get a cost metric. That is easier said than done, on how you put a cost on management of inventory inside the Department. It is easy if you are Wal-Mart. Your hold time versus your sales, it is done. For us, holding a bunch of inventory that I am holding for war reserve, I am holding inventory that I bought for economic buy, so I bought more than we needed over the objective, we are holding Navy inventory. We have weapons systems that are raging that we are just going to hold on to. So it is a more difficult thing.

On the other hand, I would also say in that case, for example, that I would rather have the inventory that I might need for that person in Iraq or Afghanistan than not have it. It is worse not to have it.

So there are areas where we need to work through. We continue to work with GAO on honing the metrics. As you know, we made a run at getting off the list back when Ken Krieg was the AT&L. Mr. Solis and I were over at OMB pushing through that, didn't quite get there. Nonetheless, my view is the work that we are doing is not about a list. It really still goes back to what is right to do for the warfighter or what is right for the taxpayer. I would love to get off the list at the same time that we are doing that.

Senator VOINOVICH. Well, I would encourage you to get together a little bit more and try to dot the "i"s and cross the "t"s and move ahead, not only for the betterment of the warfighter, but I think that with the financial situation that we have in our country today, with this unbelievable national debt, with budgets that are not being balanced, the American people finally are realizing that last year, out of every dollar we spent, we borrowed 41 cents.

I mean, our fiscal situation is really ratcheting up and I think that in terms of our Defense Department, there is going to be a lot more scrutiny about what you are doing, how efficient you are, what are you doing with your budget, with acquisitions and what are some of the tradeoffs and so forth. The big light, I think, in the next several years is going to be more on you than ever before. The more that you can demonstrate progress, the better. And you have made progress. The efficiencies that you brought to bear, which are important to the warfighter, will need to continue.

Second of all, you need to try to identify the cost savings to the Department that have resulted from supply chain improvement efforts. For example, we started out with this and today we are over here. And I don't mean fudge on the numbers, but to be able to identify, these are specific things that you can do, even though, as you point out, that may be difficult on occasion.

Mr. ESTEVEZ. And I would say that my guidance from the Secretary, from Secretary Lynn and certainly from Secretary Carter, who I see daily, is to do just that. So we will take you up and I will work with these gentlemen to press forward, sir.

Senator VOINOVICH. Thank you.

Senator AKAKA. I want to thank you very much.

Let me just follow this up. Of course, there is no question that whatever the troops need, we need to move them. The supply chain has to be used and we just hope that it gets there in a timely manner.

During the last discussion, talking about metrics, let me just ask this question. Can you tell us how your efforts and the metrics being used to gauge effectiveness of these actions, can you explain a little more about that? What do you do with those metrics?

Mr. ESTEVEZ. Sure, and again, different initiatives have different looks. Every one of them were, every single initiative to drive cost out versus an initiative to drive effectiveness. We are calculating the savings. So something like the Defense Transportation Coordination Initiative (DTCI), we have identified savings out of the transportation accounts. Those are real savings that the services accrue. And people are getting their stuff faster, so that is a true benefit.

Even in areas like movement to Iraq, for every 500 MRAPs that we move what we call intermodal move—most MRAPs we were flying in out of Charleston direct into Afghanistan, a fairly expensive move but important to get those vehicles out there for the force. Once we had enough on the ground, we moved to something we called intermodal movement. So we move them through countries in the Middle East where we then fly them on a leg. You can turn the airplane that much faster put more on the ground. It is actually operationally more effective in getting more MRAPs on the ground, and \$55 million for every 500 MRAPs moved.

That is one of the ways, even though in January when we looked at it and said, to close the force, there is no white space. How are we going to move all these MATVs, which was the contract in August, over 4,000 on the ground being used in Afghanistan today. But we managed to squeeze them into the flow at a rate that they are out there, plus other MRAPs. We moved from what we thought was going to be 500 a month to, at some points, 1,200 a month being fielded in Afghanistan, and calculating cost savings while they are doing it.

So it is a variety of things, looking at readiness, if it is a direct readiness output, like the readiness base sparing, and calculating those cost savings. Now, what happens, of course, is that in the services, they take those savings and apply them to other places. I don't necessarily see them in the logistics budget because that is not where they are. They are operation and maintenance, or operational and support account savings. Those monies can be fluctuating. If it is a direct acquisition program, then we can calculate that, or if it is in the working capital fund, I can see how that moves around. So it is tracking those things, customer wait time, readiness, either savings or cost avoidances would probably be the three areas that I look most.

Senator AKAKA. Well, I want to thank you very much. We have further questions that we will send to you. But I want to thank you for appearing here today.

As we have heard, supply chain management is critical and directly affects our men and women in uniform in the field. The Department of Defense must continue to improve its ability to deliver the right materiel to the right place at the right time. Although much progress has been made in addressing the DOD supply chain management weaknesses, many challenges remain, and I am so glad to hear that you continue to talk to each other.

As always, I want to thank Senator Voinovich, who has been a leader on this issue. While our time together grows shorter with each passing week, we have a joint commitment to improve supply chain management and remove it off the GAO's High-Risk List.

The hearing record will be open, as I said, for 2 weeks for additional statements or questions that other Members may have.

This hearing is adjourned.

[Whereupon, at 3:35 p.m., the Subcommittee was adjourned.]

A P P E N D I X

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BY THE COMMITTEE**

TESTIMONY OF

MR ALAN F ESTEVEZ

PRINCIPAL DEPUTY ASSISTANT SECRETARY OF DEFENSE

(LOGISTICS & MATERIEL READINESS)

BEFORE THE UNITED STATES SENATE

COMMITTEE ON HOMELAND SECURITY AND

GOVERNMENTAL AFFAIRS

**OVERSIGHT OF GOVERNMENT MANAGEMENT, THE FEDERAL
WORKFORCE AND THE DISTRICT OF COLUMBIA SUBCOMMITTEE**

JULY 27, 2010

**HOLD UNTIL RELEASED
BY THE COMMITTEE**

**High-Risk Logistics Planning: Progress on Improving Department of Defense
Supply Chain Management**

**Mr. Alan F. Estevez
Principal Deputy Assistant Secretary of Defense
(Logistics & Materiel Readiness)**

Chairman Akaka, Senator Voinovich and Members of the Committee:

Thank you for the opportunity to appear before you and discuss the current status of the Department of Defense's (DoD) supply chain management and logistics processes and to review with you the efforts we have taken to address areas of risk. Significant and measurable progress has been made over the past 3 years since the Department was last before this committee, and I am hopeful that my testimony today will show our continued dedication toward implementing a comprehensive, end-to-end logistics strategy that provides effective support for both our deployed warfighters and provides value to the American taxpayers who pay for that support.

Today I will give a comprehensive look at the current and future state of logistics, and the supply chain component of our logistics enterprise, by reviewing our recent actions and improvements since the last hearing in July 2007. I will also address the concrete actions taken to address the high risk designation by the Government Accountability Office (GAO) of the DoD supply chain and show how these process improvements and the associated oversight are institutionalizing a solid way forward for DoD logistics and the supply chain.

Before I address those areas, I would like to compliment your respective staffs, the Office of Management and Budget (OMB), and GAO who continue to work with the Department's staff in addressing supply chain management. I would also like to specifically acknowledge from GAO both Mr. William Solis and Mr. Jack Edwards. Our collaboration, together with the

professionalism and dedication of the entire governmental team, has contributed significantly to the successful improvements in the Department's supply chain and logistics support.

Scope of DoD Supply Chain

The DoD Supply Chain is unparalleled in its scope of operations and complexity of its mission. The over 1 million uniformed, civilian, and contract employees who support all aspects of the Department's supply chain manage over \$90 billion in inventory and keep 15,000 aircraft, 300 ships, and 30,000 combat vehicles capable of fulfilling their mission.

The DoD logistics mission is to provide globally responsive, operationally precise, and cost-effective joint logistics support for the projection and sustainment of America's warfighters. Every day, DoD logisticians support troops forward deployed in some of the world's most demanding environments and are frequently called upon to support operations on short notice in parts of the world where we have little or no presence. Most notably, DoD logisticians are key enablers to simultaneously executing the drawdown of forces in Iraq and providing full spectrum support to our efforts in Afghanistan. Since the President announced the Iraq drawdown timeline, we have been systematically and responsibly drawing down the force in Iraq. To date, we have moved out 32,000 pieces of rolling stock, closed 369 bases and are on track to bring the force down to 50,000 troops by 31 August 2010. At the same time, we have moved the majority of the 30,000 troops and their equipment into Afghanistan as the President directed in December last year while providing the needed sustainment in food, fuel, medical, construction materials, clothing, and spare parts. I just returned two weeks ago from a visit to Afghanistan. At every place I visited, the troops and their commanders reported that for the most part, they are receiving the material they need when they need it. Since the troop increase was announced, we

have moved over 17,000 re-locatable buildings (RLB) to house the forces and purchased \$10 million in other construction materials in advance to reduce the lead times and ensure the support was there as the bases were built up. We are meeting a 1.1 million gallons a day demand for fuel for the U.S. and coalition forces while feeding 435,000 meals a day to the U.S. Service personnel and civilians on the ground. In addition to moving the force, we have also moved approximately 4,000 M-ATVs and about 6,000 other MRAP variants to protect our forces as they perform their mission, and we are sustaining the readiness of these vehicles at over 90%.

Even with this enormous challenge on our plate, DoD logisticians were still able and ready to support the disaster relief effort earlier this year in Haiti.

DoD Logistics Strategic Plan

History, Key Elements and Goals

In 1990, GAO designated DoD inventory management as a high-risk area. In 2005, the title was changed to the much broader designation of supply chain management, although with no change in the underlying rationale. Substantial and measurable improvements have been made that have mitigated the high-risk designation. Since we were last before the committee, we developed and finalized the DoD Logistics Strategic Plan, incorporating our major supply chain initiatives. This Plan, which is synchronized and consistent with both the 2010 Quadrennial Defense Review (QDR) and the DoD Strategic Management Plan (SMP), published in July 2009, incorporates the logistics-related priorities, outcomes, goals, measures, and key initiatives depicted in the SMP while concurrently adding more detailed information relating to logistics strategy. The supply chain process falls under the overarching logistics enterprise in the plan.

Actual progress against each of the plan's top-level performance targets will be collected and reported via the DoD Chief Management Officer-level dashboard, and reviewed quarterly.

DoD established the framework for the Logistics Strategic Plan with the issuance of the DoD Strategic Management Plan (SMP) in July 2009. The SMP describes the steps the Department is taking to better integrate business with our strategic planning and decision processes and to better manage performance. The plan postures the Department to enhance productivity by focusing resources on the key levers that drive success and depicts outcomes, goals, and measures, and key initiatives linked to five DoD business priorities. Logistics is depicted under two of these business priorities: (1) Support Contingency Business Operations; and (2) Reform the DoD Acquisition and Support Processes. Those two priorities are supported by four separate goals and associated success indicators in the Logistics Strategic Plan. They are: (1) provide logistics support in accordance with warfighters' requirements; (2) institutionalize operational contract support; (3) ensure supportability, maintainability and costs are considered throughout the acquisition cycle; and (4) improve supply chain processes, synchronizing from end-to-end and adopting challenging but achievable standards for each element of the supply chain.

The Logistics Strategic Plan was the result of a series of evolutionary steps that focused on improving DoD supply chain management and mitigating the high risk designation. It incorporated the elements of the 2005 DoD Supply Chain Management (SCM) High Risk Improvement Plan and its 9 key initiatives for improving the supply chain focus areas of distribution, visibility and forecasting. Likewise, the 2008 DoD Logistics Roadmap formed the next governing document for our improvement efforts by documenting the range of major programs and initiatives. It defined DoD logistics in terms of initiatives and programs while

documenting specific actions underway to achieve logistics goals and supporting objectives. Additionally, the Logistics Roadmap began the process of linking logistics initiatives and program performance assessments to identifiable and measurable strategic outcomes, including those in the 2005 SCM Improvement Plan. Because of its usefulness as a management tool in tracking improvement progress, the plan continued to be updated quarterly as part of the overall Logistics Roadmap. The Roadmap contributed to the development of a more coherent and authoritative framework that ultimately became the 2010 DoD Logistics Strategic Plan.

Supply-Chain Operations Reference-Model (SCOR)

With the Logistics Strategic Plan as the overarching document directing our efforts, the Department is also institutionalizing an effective, efficient end-to-end supply chain by employing two models that promote process standardization, facilitate process integration, and define the enterprise framework. First, we have incorporated the industry standard Supply-Chain Operations Reference-Model (SCOR) in establishing our key, outcomes-based metrics. SCOR provides a unique framework that links business processes, metrics, best practices, and technology features into a unified structure to improve effectiveness of supply chain management. The Department uses SCOR processes as a framework for developing, improving, and conducting material management activities. The SCOR framework links logistics processes with integration and improvement efforts. Second, the Joint Supply Chain Architecture (JSCA) is a DoD-wide SCOR-based process model that clearly defines supply chain configuration elements and links them to driving precise and reliable outcomes. JSCA fosters a common understanding among stakeholders of supply chain objectives, terminology, and performance measures and provides a mechanism to improve unity of effort. Based upon five distinct management processes of plan, source, make, deliver and return, DoD added a sixth process of

dispose and then overlaid it on our extremely complex and dynamic supply chain to fully capture the framework.

Using this process model, we then focused on the primary metrics of Customer Wait Time (CWT), Perfect Order Fulfillment (POF), and Total Supply Chain Management Costs to track speed, reliability and overall efficiency of the DoD supply chain. Since 2004, we have seen a reduction in Customer Wait Time (CWT), the primary metric of our logistics and supply chain performance, from 22.9 days down to 16.1 days. POF is an emerging metric implemented at DLA that measures how well the end-to-end supply chain delivers the right part to the customer on time, in the correct quantity, and with no material deficiencies. The metric tracks multiple segments of the supply chain like system processing time, storage time, and receipt take up time. We are beginning to see improvements in POF through collaboration efforts. As an example, DLA and Army collaboration efforts have resulted in an 11% increase in POF for Army requisitions from DLA (from 72% to 83%) over the last two years. The Department is now defining a Total Supply Chain Management Cost metric that measures efficiency.

SCM Focus Area: Distribution

Joint Theater Distribution

With respect to distribution, the Department recognized the challenges it was facing in support of ongoing operations in Iraq and Afghanistan and took specific actions to improve material flow throughout the supply chain. In direct response to those challenges in the Central Command (CENTCOM) area of responsibility (AOR) and to streamline processes and provide

overall accountability of material distribution, the Deployment Distribution Operations Center (DDOC) was established in 2004. The DDOC supports the geographic Combatant Commanders' operational objectives by synchronizing strategic and multimodal resources to optimize force deployment and sustainment. A DDOC has been established at each of the geographic Combatant Commands, and evidence of the great value of this initiative was recognized in 2005 when USCENTOCM's DDOC earned the Supply Chain Council's Award for Operational Excellence. The DDOCs are maximizing combat effectiveness, disaster relief, and humanitarian support efforts through improved end-to-end (E2E) distribution and visibility. For example, the CENTCOM DDOC was able to decrease the overall delivery time for pallets of material moving via air in the theater by combining the processes performed at the Defense Logistics Agency (DLA) Distribution Depot in Kuwait (DDKS) and the commercial air carriers into a streamlined and efficient process that made the pallets available for movement in two days rather than the seven and half days it originally took. USPACOM's DDOC operated in Support of Operation UNIFIED ASSISTANCE tsunami relief operations in 2004, USNORTHCOM DDOC-Forward was used in 2005 in support relating to Hurricane Katrina relief efforts, and the USSOUTHCOM DDOC was instrumental in support to the relief efforts following the earthquake in Haiti earlier this year. Similar to the DDOC, USTRANSCOM developed a Joint Task Force-Port Opening (JTF-PO) capability, now mission ready, that provides Combatant Commanders a fast-reaction, initial theater distribution capability.

Northern Distribution Network (NDN)

As the force structure has grown in Afghanistan over the last couple of years, the Department used the lessons learned from Iraq to improve distribution flow into that vastly different country. Historically, logistics support to Afghanistan has been provided through

Pakistan from the Port of Karachi. In order to provide alternate routes, USTRANSCOM established the Northern Distribution Network (NDN) into Afghanistan for the deployment of the additional troops that began last year. The NDN is limited to the transit of non-lethal cargo over existing commercial routes, and consists of four routes that connect the Baltic and Caspian ports with Afghanistan via Russia and the Southern Caucasus/Central and South Asian States (SC/CASA). To date, DLA has booked more than 10,000 containers onto the NDN, accounting for 81 percent of all shipments. Initially utilized for shipping nonperishable items, DLA has since worked with USTRANSCOM and USCENTCOM to facilitate shipment of refrigerated cargo, both U.S. government and Prime Vendor-owned, on the NDN. In March of this year, we commenced booking the first such shipments.

Just as the Distribution Depot was established in Kuwait to support material distribution into neighboring Iraq, a similar effort is underway to support distribution into Afghanistan. In coordination with USCENTCOM, DLA is establishing a forward deployed warehouse in Afghanistan to improve access to parts and enhance readiness support as the U.S. broadens our operational footprint. On track to be fully operational this summer, the depot will establish a receipt, storage, and issue capability for selected DLA and Service items identified using an economic movement quantity model. A conservative estimate is that by establishing a depot in Afghanistan, we will reduce the related sustainment airlift requirement into Afghanistan by up to 38 percent.

Defense Transportation Coordinator Initiative (DTCI)

Similar to the successes with improving material distribution in theater, the Department's Defense Transportation Coordinator Initiative (DTCI) has produced measurable improvements

and savings with CONUS distribution. DTCI is an ongoing transportation reengineering effort designed to create an effective and efficient business model for the management of DoD's domestic freight program. Through DTCI, DoD is outsourcing the day-to-day management of its domestic freight to a world-class third party logistics (3PL) provider. In this new business model, the 3PL provider receives shipment requirements, identifies consolidation opportunities, prepares shipment plans for delivery, arranges for transportation providers, and performs carrier quality assurance functions. USTRANSCOM, in its role as the DoD Distribution Process Owner (DPO), designated DTCI as one of the DPO top 10 initiatives.

Prior to DTCI, hundreds of DoD shippers in the Continental United States (CONUS) initiated freight movements using commercial freight transportation providers destined for hundreds of receiving activities. Multiple information systems were employed to execute and manage shipment activity. There was no centralized planning, coordination, and control. DoD shippers acted unilaterally by independently selecting mode, level of service, and transportation provider. There was limited visibility of movement requirements and limited exploitation of DoD's considerable volume and optimization potential. With DTCI, the DoD is bringing about increased cost savings and better efficiency in shipping operations.

DTCI implementation is being rolled out to 125 of the highest volume shipper sites in phases. The original 3 phases consisting of 68 shipper sites have been implemented. Two more phases have subsequently been added — Phase IV consisting of 37 sites is currently in progress. Upon completion of Phase IV, another 20 shipper sites have been identified for implementation and will be completed by December 2011.

The roll-out has been progressing smoothly and the program is already producing better than expected results. To date, 85 of the 95 sites are covered and the savings are tracking close to 26% (\$91M) of cost avoidance in 2nd destination transportation expenses rather than the expected 18-21% estimated in the business case analysis. Additionally, on-time delivery is running better than 96%, loss and damage is less than .01%, and the Department now has pick-up and delivery visibility over all DTIC shipments within 2 hours of their actual occurrence.

SCM Focus Area: Asset Visibility

Radio Frequency Identification (RFID)

As with distribution, the Department has achieved significant progress in the area of asset visibility to mitigate the high risk designation and improve support to the warfighting customer. The utility of Automatic Identification Technology (AIT) to the Department of Defense (DoD) logistics business area is just beginning to be exploited. Active Radio Frequency Identification (RFID) has already improved the ability to track and trace materiel through the supply chain. The Department has fully implemented active RFID to provide in-transit visibility of consolidated shipments destined for Combatant Commands overseas. The Services and DLA are implementing passive RFID to enable supply chain operational efficiencies and data accuracy to produce expected outcomes of improved materiel receiving, property accountability, inventory accuracy, decreased cost of conducting inventory, and reduction in duplicate orders, inventory shrinkage, and material order fulfillment time. Currently all 17 CONUS distribution centers, the two OCONUS distribution centers, and all three strategic aerial ports of embarkation have the capability to read and write passive RFID. Already, we are seeing a 62% decrease in receiving process errors for small parcel shipments on RFID enabled receiving lanes at DLA's Center of

Excellence at the Defense Distribution Depot San Joaquin from September 09 to January 10. At Pearl Harbor, we have seen a 10 day reduction in logistics response time for the most critical requisitions and a 30 day reduction in response time for less critical requisitions over 12 months. Likewise, there has been a 39% reduction in the average hours needed to process unit-level requisitions (3.1 to 1.9 hours) at the supply support activity in FT. Bragg. Additionally, the Department is implementing satellite tracking and container intrusion detection devices in hostile environments in Afghanistan to enhance real-time visibility.

We are leveraging AIT to improve the Department's ability to get the warfighter the right materiel, at the right place, at the right time, and in the right condition, at the lowest cost possible.

SCM Focus Area: Forecasting

Demand Planning

Similar to the results in distribution and asset visibility, the Department has realized significant improvements in demand forecasting and has developed a solid plan for enhanced inventory management. We are improving inventory management by reducing low-usage inventory and increasing availability of high-usage and critical inventory. We are also updating and improving the material requirements process to accurately identify required war reserve stocks. Likewise, we are updating our computer models to more rapidly and accurately forecast wartime demand items with long procurement lead times. To that end, we have made considerable progress in demand plan accuracy: the measurement of forecasted demand when compared to actual demand. DLA, which satisfies 95% of customer demands, has seen demand forecast accuracy improve by 24% for secondary items since 2005.

Readiness Based Sparing (RBS), like demand plan accuracy, is another example of positive improvements in Department forecasting and inventory management. RBS is the practice of using advanced analytics to establish spares levels and locations to maximize system readiness. At its core is an effective investment in inventory for designated weapons systems that provides higher levels of readiness at a reduced cost compared to conventional sparing models. As an example of success using a commercial RBS tool, the U.S. Navy is currently improving the system for determining aviation consolidated allowance lists for on-board spares on several of its aircraft carriers and has already noted both improved efficiency and effectiveness. From FY06-09, the Navy realized a 13% cost savings due to better allocation of spares per carrier for each of the six carriers in the program, an aggregate cost savings of approximately \$216M. Additionally, the improvement led to a 50% reduction in hi-priority requisitions. All of this was achieved during a 7% increase in operational tempo flight hours. DLA has begun a phased implementation of a commercial RBS tool, incrementally establishing item support, and is working with the U.S. Air Force to provide item visibility through the sharing of demand and availability data from this tool.

Additionally, the Department began a systematic discovery of weaknesses in demand forecasting systems used for inventory management across the Department. The life cycle of a weapon system, and the items that maintain its readiness, as well as the items reviewed by GAO in its inventory audits, will provide the foundation for this comprehensive review. This life cycle approach will consider the forecasting processes, procedures, and metrics that are employed during provisioning, interim support, sustainment (at wholesale and retail levels), and system retirement.

DoD Comprehensive Inventory Management Improvement Plan

At the heart of the Department's improvement efforts in the area of forecasting and inventory management is the DoD Comprehensive Inventory Management Improvement Plan to be submitted in October 2010. The plan incorporates our current strategy of continuously seeking ways to improve our inventory processes, which is evident in the number of ongoing efforts described within. The plan responds to Section 328 of the *National Defense Authorization Act (NDAA) for Fiscal Year 2010* which established a formal requirement for the Secretary of Defense to submit "a comprehensive plan for improving the inventory management systems of the Military Departments and the Defense Logistics Agency with the objective of reducing the acquisition and storage of secondary item inventory that is excess to requirements." Section 328 identified eight specific areas of study for DoD: (1) demand forecasting, (2) total asset visibility and multi-echelon modeling, (3) on-order excess, (4) economic retention, (5) contingency retention, (6) storage and direct vendor delivery (DVD), (7) items with no demand, and (8) disposal reviews. The improvements embodied in the Plan extend beyond the eight areas cited in the legislation, addressing a broad range of improvements to better size the DoD inventory to meet the needs of the warfighter.

The Department's strategy is to improve inventory management processes and systems so the DoD Components can better size and manage their inventories to meet the needs of our forces. Along with meeting this commitment to support the materiel requirements, our objective is a prudent reduction in current excesses as well as a reduction in the potential for future excesses. Besides the need to balance investment and risk, a number of other factors contribute to the complexity of processes in our inventory management systems. Included among those is the volatility of wartime and contingency operations that results in ever-changing materiel requirements as well as unplanned demand that may occur due to changes in maintenance practices or new sources of demand, such as foreign military sales. The Plan builds on the ongoing efforts of the Service Components to address

the factors above, and identifies the appropriate actions and targeted objectives that support the eight individual plans required by Congress.

Conclusion

Last month Secretary Gates announced a major initiative within DoD to shift \$100 billion from overhead activities into direct mission-related activities and equipment over the next five fiscal years. In that spirit, the Department remains committed at the most senior levels to supporting the warfighter at the best value to the taxpayer. As a matter of principle we must do everything possible to make every taxpayer dollar count. The real and measurable outcomes from our supply chain improvement efforts to date and those that are still in progress clearly offer tangible value to the warfighter and taxpayer by providing increasingly effective and efficient logistical services.

In closing, again I thank you Mr. Chairman for the opportunity to testify today on the important issues associated with the DoD supply chain and logistics. I trust my testimony has provided you with a clearer picture of the substantial progress that we have made to mitigate the high risk designation and justify its removal. More importantly, I hope my testimony has shown you the evolutionary nature of the improvements we have and continue to make in the effectiveness, efficiency and accountability of the DoD supply chain and how our focus remains on delivering the logistics support to our warfighters they justly deserve and need. I look forward to continuing to work with you in that effort.

Thank you and I would be happy to answer any questions you and the Members of the Committee may have.

GAO

United States Government Accountability Office

Testimony before the Subcommittee on
Oversight of Government Management, the
Federal Workforce, and the District of
Columbia, Committee on Homeland Security
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DOD'S HIGH-RISK AREAS

Observations on DOD's Progress and Challenges in Strategic Planning for Supply Chain Management

Statement of Jack E. Edwards, Director
Defense Capabilities and Management

Statement of William M. Solis, Director
Defense Capabilities and Management



GAO-10-929T



Highlights of GAO-10-929T, a testimony before the Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia, Committee on Homeland Security and Governmental Affairs, U.S. Senate

Why GAO Did This Study

The Department of Defense's (DOD) management of its supply chain network is critical to supporting military forces in Iraq, Afghanistan, and elsewhere and also represents a substantial investment of resources. As a result of weaknesses in DOD's management of supply inventories and responsiveness to warfighter requirements, supply chain management is on GAO's list of high-risk federal government programs and operations. In July 2010, DOD issued a new *Logistics Strategic Plan* that represents the department's current vision and direction for supply chain management and other logistics areas.

Today's testimony draws from GAO's prior related work and observations from an ongoing review of DOD supply chain management, and, as requested, will (1) describe DOD's prior strategic planning efforts in the area of logistics, (2) highlight key elements in the new *Logistics Strategic Plan*, and (3) discuss opportunities for improvement in future iterations of this plan. In conducting its ongoing audit work, GAO reviewed the *Logistics Strategic Plan*, compared elements in the plan with effective strategic planning practices, and met with cognizant officials from DOD, the military services, and other DOD components as appropriate.

View GAO-10-929T or key components. For more information, contact Jack E. Edwards at (202) 512-8246 or edwardsj@gao.gov or William M. Solis at (202) 512-8365 or solisw@gao.gov.

July 27, 2010

DOD'S HIGH-RISK AREAS

Observations on DOD's Progress and Challenges in Strategic Planning for Supply Chain Management

What GAO Found

Prior to the publication of its new *Logistics Strategic Plan*, DOD issued a series of strategic planning documents for logistics over a period of several years. In 2008, DOD released its *Logistics Roadmap* to provide a more coherent and authoritative framework for logistics improvement efforts, including supply chain management. While the roadmap discussed numerous ongoing initiatives and programs that were organized around goals and joint capabilities, it fell short of providing a comprehensive, integrated strategy for logistics. GAO found, for example, that the roadmap did not identify gaps in logistics capabilities and that DOD had not clearly stated how the roadmap was integrated into DOD's logistics decision-making processes. GAO's prior work has shown that strategic planning is the foundation for defining what an agency seeks to accomplish, identifying the strategies it will use to achieve desired results, and then determining how well it succeeds in reaching results-oriented goals and achieving objectives. DOD said that it would remedy some of the weaknesses GAO identified in the roadmap.

The July 2010 *Logistics Strategic Plan*, which updates the roadmap, is DOD's most recent effort to provide high-level strategic direction for future logistics improvement efforts, including those in the area of supply chain management. The plan provides unifying themes for improvement efforts, for example, by including a logistics mission statement and vision for the department, and it presents four goals for improvement efforts with supporting success indicators, key initiatives, and general performance measures. One goal focuses specifically on supply chain processes. The plan is aligned to and reiterates high-level departmentwide goals drawn from both the 2010 *Quadrennial Defense Review* and the 2009 *Strategic Management Plan* for business operations. Key initiatives in the plan appear to focus on issues that GAO has identified as needing management attention.

While the *Logistics Strategic Plan* contains some of the elements necessary for strategic planning, it lacks some detailed information that would benefit decision makers and guide DOD's logistics and supply chain improvement efforts. The plan lacks specific and clear performance measurement information (such as baseline or trend data for past performance, measurable target-level information, or time frames for the achievement of goals or completion of initiatives), definition of key concepts, identification of problems and capability gaps, and discussion of resources needed to achieve goals. Further, linkages to other plans and some key related activities under way within logistics are unclear, and it is similarly unclear how the plan will be used within the existing governance framework for logistics. Without more specific information in the *Logistics Strategic Plan*, it will be difficult for DOD to demonstrate progress in addressing supply chain management problems and provide Congress with assurance that the DOD supply chain is fulfilling the department's goal of providing cost-effective joint logistics support for the warfighter.

United States Government Accountability Office

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss the Department of Defense's (DOD) progress and challenges in developing a strategic plan to resolve long-standing problems with supply chain management. DOD manages a vast and complex supply chain network—providing everything from spare parts and base support items to food and fuel—that is vital to supporting operations and maintaining readiness. As you are aware, supply chain management is critical to supporting military forces in Iraq, Afghanistan, and elsewhere, and it also represents a substantial investment of resources. While there are many aspects to supply chain management, at its essence it is the operation of a continuous and comprehensive logistics process, from the initial customer order of materials or services to the ultimate satisfaction of the customer's requirements. DOD's goal is to provide effective and efficient supply chain management and to deliver the right items to the right place at the right time.

As a result of weaknesses in DOD's management of supply inventories and responsiveness to warfighter requirements, supply chain management has been on our list of high-risk federal government programs and operations since 1990. We initially focused on inventory management and later determined that concerns extended to other aspects of the supply chain, including requirements forecasting, asset visibility, and materiel distribution.¹ For many years, DOD has recognized a need to improve logistics support and supply chain management, and has issued a series of planning documents, including strategies, vision statements, and roadmaps. Earlier this month, the Office of the Secretary of Defense (OSD) issued DOD's new *Logistics Strategic Plan* that represents the department's current vision and direction for supply chain management and other logistics areas.² DOD intends to update this plan annually.

In our statement today, we will (1) describe DOD's prior logistics-related strategic planning efforts, (2) highlight key elements in DOD's new *Logistics Strategic Plan*, and (3) discuss opportunities for improvement in

¹GAO, *High-Risk Series: An Update*, GAO-09-271 (Washington, D.C.: January 2009); *High-Risk Series: An Update*, GAO-07-310 (Washington, D.C.: January 2007); and *High-Risk Series: An Update*, GAO-05-207 (Washington, D.C.: January 2005).

²Department of Defense, Office of the Secretary of Defense, Principal Deputy Assistant Secretary of Defense for Logistics and Materiel Readiness, *Department of Defense Logistics Strategic Plan*, July 2010.

future iterations of this plan. Our statement is based both on previous GAO work and observations from our ongoing review of DOD's efforts to improve supply chain management. In our ongoing review, which is being performed under the authority of the Comptroller General to conduct evaluations on his own initiative, we interviewed DOD and component officials to discuss the development of the *Logistics Strategic Plan* and reviewed relevant documents, such as current DOD-wide and service-level plans and strategies. We also compared elements in the plan to practices found in effective strategic planning that we have identified in previous work. This work is being performed in accordance with generally accepted government auditing standards.³

Background

Before addressing these issues in detail, we would like to review two primary reasons why effective and efficient supply chain management is important for DOD. First, supply support to the warfighter affects readiness and military operations. In fact, the supply chain is a critical link in determining outcomes on the battlefield and can affect the military's ability to meet national security goals. We previously reported on problems with supply distribution support in Iraq, including shortages of critical supply items and weaknesses in requirements forecasting, asset visibility, and distribution. DOD took steps to address such issues, for example, by establishing a joint deployment and distribution operations center to coordinate the flow of materiel into the theater. Second, given the high demand for goods and services to support ongoing U.S. military operations, the investment of resources in the supply chain is substantial. DOD spends billions of dollars to purchase, manage, store, track, and deliver supplies. It is particularly important that these substantial resources are effectively and efficiently invested in light of the nation's current fiscal environment. In fact, the Secretary of Defense has recently stated that given the nation's difficult economic circumstances and fiscal condition, DOD will need to reduce overhead costs and transfer those savings to force structure and modernization priorities.⁴

³Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

⁴Remarks delivered by Secretary of Defense Robert M. Gates in Abilene, Kansas (May 8, 2010).

Congressional interest has likewise focused attention on areas within DOD's logistics portfolio that are in need of improvement. One such area is inventory management. The Fiscal Year 2010 National Defense Authorization Act requires DOD to prepare a comprehensive plan for improving the inventory management systems of the military departments and the Defense Logistics Agency (DLA), with the objective of reducing the acquisition and storage of secondary inventory that is excess to requirements. We understand that DOD is finalizing the development of its comprehensive plan and expects to release that plan later this year.

As noted earlier, DOD supply chain management has been designated by GAO as a high-risk area. GAO's high-risk designation is intended to place special focus on programs and functions that need sustained management attention in order to resolve identified problems. We have reported that in order to successfully resolve supply chain management problems, DOD needs to sustain top leadership commitment and long-term institutional support for its strategic planning efforts for supply chain management, obtain necessary commitments for its initiatives from the military services and other DOD components, make substantial progress in implementing improvement initiatives and programs across the department, and demonstrate progress in achieving the objectives identified in supply chain management-related strategic planning documents. We have also encouraged DOD to develop an integrated, comprehensive plan for improving logistics. While we have previously noted progress DOD has made toward improving some aspects of supply chain management, demonstrating sustained improvement has been a continuing challenge due in part to a lack of outcome-oriented performance measures that are consistent across the department and that are linked to focus areas, such as requirements forecasting, asset visibility, and materiel distribution, and related initiatives.⁵

In addition, successful resolution of weaknesses in supply chain management depends on improvements in some of DOD's other high-risk areas. For example, modernized business systems and the related

⁵For our prior statements on supply chain management, see GAO, *DOD's High-Risk Areas: Efforts to Improve Supply Chain Can Be Enhanced by Linkage to Outcomes, Progress in Transforming Business Operations, and Reexamination of Logistics Governance and Strategy*, GAO-07-1064T (Washington, D.C.: July 10, 2007); *DOD's High-Risk Areas: Challenges Remain to Achieving and Demonstrating Progress in Supply Chain Management*, GAO-06-983T (Washington, D.C.: July 25, 2006); and *DOD's High-Risk Areas: High-Level Commitment and Oversight Needed for DOD Supply Chain Plan to Succeed*, GAO-06-113T (Washington, D.C.: Oct. 6, 2005).

investments in needed information technology are essential to the department's effort to achieve total asset visibility, an important supply chain management issue. Regarding financial management, we have repeatedly reported that weaknesses in business management systems, processes, and internal controls not only adversely affect the reliability of reported financial data but also the management of DOD operations. Such weaknesses have adversely affected the ability of DOD to control costs, ensure basic accountability, anticipate future costs and claims on the budget, measure performance, maintain funds control, and prevent fraud.

DOD's new *Logistics Strategic Plan* is intended to support other recent strategic planning efforts in the department, including the completion of the 2010 *Quadrennial Defense Review* and the publication of the 2009 *Strategic Management Plan*.⁶ The *Quadrennial Defense Review* is a congressionally mandated report that provides a comprehensive examination of the national defense strategy, force structure, force modernization plans, infrastructure, budget plan, and other elements of defense programs and policies. The review is to occur every 4 years, with a view toward determining and expressing the nation's defense strategy and establishing a defense program for the next 20 years. Also in response to legislative requirements, DOD issued the *Strategic Management Plan* in 2008 and updated it in 2009. The *Strategic Management Plan* serves as DOD's strategy for improving its business operations, and describes the steps DOD will take to better integrate business with the department's strategic planning and decision processes in order to manage performance.

⁶Office of the Secretary of Defense, *Quadrennial Defense Review Report* (February 2010), and Office of the Deputy Chief Management Officer, *Strategic Management Plan* (July 31, 2009).

Prior DOD Logistics
Planning Efforts
Identified Goals and
Initiatives but Fell
Short of Providing a
Comprehensive,
Integrated Strategy

Sound Strategic Planning
Is Critical to an Agency's
Results-Oriented
Management

A key starting point in developing and implementing an effective results-oriented management framework is an agency's strategic planning effort. Our prior work has shown that strategic planning is the foundation for defining what the agency seeks to accomplish, identifying the strategies it will use to achieve desired results, and then determining how well it succeeds in reaching results-oriented goals and achieving objectives. Developing a strategic plan can help clarify organizational priorities and unify the agency's staff in the pursuit of shared goals. If done well, strategic planning is continuous, provides the foundation for the most important things the organization does each day, and fosters informed communication between the organization and its stakeholders. Combined with effective leadership, strategic planning provides decision makers with a framework to guide program efforts and the means to determine if these efforts are achieving the desired results.

The Government Performance and Results Act (GPRA) and associated guidance from the Office of Management and Budget (OMB)⁷ require, among other things, that government agencies periodically develop agencywide strategic plans that contain certain necessary elements to be used by the agency and external stakeholders in decision making. Furthermore, recent OMB guidance concerning GPRA-related strategic plans stated that such a strategic plan should also provide sufficient context to explain why specific goals and strategies were chosen.⁸ The

⁷Government Performance and Results Act of 1993, Pub. L. No 103-62 (1993), and OMB Circular No. A-11, *Preparation, Submission and Execution of the Budget* (Aug. 7, 2009).

⁸OMB Memorandum M-10-24, *Performance Improvement Guidance: Management Responsibilities and Government Performance and Results Act Documents* (June 25, 2010).

strategic planning requirements of GPRA and its implementation guidance generally only apply to agencywide strategic plans.⁹

While GPRA does not apply to DOD's *Logistics Strategic Plan*, our prior work has identified many of GPRA's requirements as the foundation for effective strategic planning. Our prior work has shown that organizations conducting strategic planning need to develop a comprehensive, results-oriented management framework to provide an approach whereby program effectiveness is measured in terms of outcomes or impact, rather than outputs, such as activities or processes. Such a framework includes critical elements such as a comprehensive mission statement, long-term goals, strategies to achieve the goals, use of measures to gauge progress, identification of key external factors that could affect the achievement of goals, a description of how program evaluations will be used, and stakeholder involvement in developing the plan. DOD internally has recognized the importance of these critical elements. For example, the Office of the Assistant Secretary of Defense for Logistics and Materiel Readiness directed each of the services to conduct strategic planning for depot maintenance and to submit plans that focus on achieving DOD's strategy. The services were directed to include in their depot maintenance plans many of the same strategic planning elements just mentioned.¹⁰ In addition, we have reported that a strategic planning process should align lower-level goals and measures with departmentwide goals and measures, assign accountability for achieving results, be able to demonstrate results and provide a comprehensive view of performance, and link resource needs to performance. Further, such a strategic planning process and the resulting plan should set strategic direction, prioritize initiatives and resources, establish investment priorities and guide key resource decisions, and monitor progress through the establishment of performance goals and measures. Finally, we found in previous work that DOD's prior strategic planning efforts for logistics lacked information necessary to be more useful tools for senior leaders, such as the inclusion of identified logistics problems, performance measures, and a method for integrating plans into existing decision-making processes.

⁹DOD views the *Quadrennial Defense Review* as fulfilling the requirement for an agency strategic plan.

¹⁰See, for example, GAO, *Depot Maintenance: Improved Strategic Planning Needed to Ensure That Air Force Depots Can Meet Future Maintenance Requirements*, GAO-10-526 (Washington, D.C.: May 14, 2010).

DOD Has Issued Prior Strategic Plans on Logistics and Supply Chain Management

Over a number of years prior to the publication of its *Logistics Strategic Plan*, DOD issued a series of strategic planning documents for logistics and the management of its supply chain. These plans have differed in scope and focus, although they have typically included a number of high-level goals and related initiatives. For example, for a period of several years beginning in the mid-1990s, DOD issued a series of strategic plans for logistics. Later, the 2004 DOD *Logistics Transformation Strategy* attempted to reconcile several of DOD's ongoing logistics approaches, namely focused logistics, force-centric logistics enterprise, and sense and respond logistics.¹¹ In 2005, DOD issued the first iteration of its *Supply Chain Management Improvement Plan* to address some of the systemic weaknesses that were highlighted in our reports. That same year, DOD produced its *Focused Logistics Roadmap*, which catalogued current ("as is") efforts and initiatives.

Building on the "as is" *Focused Logistics Roadmap*, DOD recognized the need for a comprehensive, integrated strategy for transforming logistics and released its *Logistics Roadmap* in July 2008 to provide a more coherent and authoritative framework for logistics improvement efforts, including supply chain management.¹² DOD indicated that the roadmap would be a "living" document and that future updates would incorporate new initiatives and programs, report progress toward achieving logistics capability performance targets, and help connect capability performance targets to current and planned logistics investment for an overarching view of DOD's progress toward transforming logistics.

The roadmap documented numerous initiatives and programs that were then under way and organized these around goals, joint capabilities, and objectives. However, we found that the roadmap was missing information that would make it more useful for DOD's senior leaders.¹³ First, it did not

¹¹Focused logistics was a concept for force transformation developed by the Joint Chiefs of Staff that identified logistics challenges and capabilities needed to meet the challenges. Force-centric logistics enterprise was an OSD concept for enhancing support to the warfighter that encompassed six initiatives. Sense and respond logistics was a future logistics concept developed by the department's Office of Force Transformation that envisioned a networked logistics system that would provide joint strategic and tactical operations with predictive, precise, and agile support.

¹²Office of the Secretary of Defense, Deputy Under Secretary of Defense for Logistics and Materiel Readiness, *Department of Defense Logistics Roadmap*, July 2008.

¹³GAO, *Defense Logistics: Lack of Key Information May Impede DOD's Ability to Improve Supply Chain Management*, GAO-09-150 (Washington, D.C.: Jan. 12, 2009).

identify the scope of DOD's logistics problems or gaps in logistics capabilities. Second, it lacked outcome-based performance measures that would enable DOD to assess and track progress toward meeting stated goals and objectives. Third, DOD had not clearly stated how it intended to integrate the roadmap into DOD's logistics decision-making processes or who within the department was responsible for this integration. A comprehensive, integrated strategy that includes these three elements is critical, in part, because of the diffuse organization of DOD logistics, which is spread across multiple DOD components with separate funding and management of logistics resources and systems. Moreover, we stated that without these elements, the roadmap would likely be of limited use to senior DOD decision makers as they sought to improve supply chain management and that DOD would have difficulty fully tracking progress toward meeting its goals.

To address these weaknesses, we recommended that DOD include in future updates of its *Logistics Roadmap* the elements necessary to have a comprehensive, integrated strategy for improving logistics and to clearly state how this strategy would be used within existing decision-making processes. Specifically we recommended that DOD

- identify the scope of logistics problems and capability gaps to be addressed through the roadmap and associated efforts;
- develop, implement, and monitor outcome-focused performance measures to assess progress toward achieving the roadmap's objectives and goals; and
- document specifically how the roadmap will be used within the department's decision-making processes used to govern and fund logistics and who will be responsible for its implementation.

DOD officials concurred with our recommendations and stated that they planned to remedy some of these weaknesses in their follow-on efforts to the roadmap. DOD officials subsequently stated that they had begun a series of assessments of the objectives included in the roadmap in order to identify capability gaps, shortfalls, and redundancies and to recommend solutions. As part of this assessment process, DOD officials stated that supply, maintenance, deployment, and distribution managers had been tasked with determining which specific outcome-oriented performance metrics could be linked to each of the objectives and goals within the roadmap in order to assess progress toward achieving desired results. DOD officials said that the results of these assessments would be included in the next version of the roadmap, which was scheduled for release in 2009. DOD further stated that a joint Executive Advisory Committee made

up of senior leaders responsible for implementing logistics programs and initiatives had been established to guide the roadmap process to ensure that it is a useful tool in decision making.

DOD's 2010 *Logistics Strategic Plan* Provides High-Level Strategic Direction

The 2010 *Logistics Strategic Plan* is DOD's most recent effort to provide high-level strategic direction for future logistics improvement efforts, including those in the area of supply chain management. According to DOD officials, the plan serves as an update to the 2008 *Logistics Roadmap*. They further explained that the plan is an effort to identify the enduring and ongoing logistics efforts within the department and provide a good balance between the need for specificity and generality, without the level of detail included in the prior roadmap and with a broader scope than that provided in the *Supply Chain Management Improvement Plan*.

The *Logistics Strategic Plan* articulates the department's logistics mission and vision.¹⁴ The plan further states that to continue improving logistics support to the warfighter, it is essential that all elements of DOD's logistics community take steps to better integrate logistics with strategic planning and decision processes and to manage logistics performance. To drive the department's logistics enterprise toward that end, the plan includes goals, key initiatives, and some information on how DOD plans to track progress, including general performance measures. Through the inclusion of these elements, the plan provides unifying themes for improvement efforts.

The *Logistics Strategic Plan* reiterates high-level department goals drawn from both the *Quadrennial Defense Review* and the *Strategic Management Plan*. For example, the *Logistics Strategic Plan* incorporates two of the *Strategic Management Plan*'s business priorities: support contingency business operations to enhance support to the deployed warfighter and reform the department's acquisition and support processes. In addition, the *Logistics Strategic Plan* contains four logistics goals:

Goal 1: Provide logistics support in accordance with warfighter requirements.

¹⁴According to the plan, DOD's logistics mission is to provide globally responsive, operationally precise, and cost-effective joint logistics support for the projection and sustainment of America's warfighters. The logistics vision is to have a logistics enterprise ready to support any combination of combat, security, engagement, and relief and reconstruction operations.

Goal 2: Institutionalize operational contract support.

Goal 3: Ensure supportability, maintainability, and costs are considered throughout the acquisition cycle.

Goal 4: Improve supply chain processes, synchronizing from end-to-end and adopting challenging but achievable standards for each element of the supply chain.

The plan lists 30 key initiatives related to the four logistics goals. According to a senior DOD official, the initiatives were selected based on the determination of officials within the Office of Assistant Secretary of Defense for Logistics and Materiel Readiness and were subsequently provided to the military services for review. In our review of the plan, we noted that key initiatives appear to focus on issues that we have identified as needing management attention. For example, our prior work on warfighter and logistics support in Iraq and Afghanistan has identified issues that directly relate to initiatives that support Goal 1—provide logistics support in accordance with warfighter requirements. We recently testified that DOD has taken steps to improve distribution of materiel to deployed forces in Afghanistan; however, we found several challenges that included difficulties with transporting cargo through neighboring countries and around Afghanistan, limited airfield infrastructure, and lack of full visibility over cargo movements.¹⁵ The *Logistics Strategic Plan* contains an initiative to facilitate logistics support for Afghanistan, including interagency coordination and development of transportation and distribution alternatives, as needed. In addition, our work has also raised concerns about the lack of risk assessments conducted for DOD's Civil Reserve Air Fleet program, and DOD's management of the program has not provided air carrier participants with a clear understanding of some critical areas of the program. DOD's *Logistics Strategic Plan* includes a related initiative.¹⁶

With regard to Goal 2—institutionalize operational contract support—we have issued reports over a period of many years on progress and problems

¹⁵GAO, *Warfighter Support: Preliminary Observations on DOD's Progress and Challenges in Distributing Supplies and Equipment to Afghanistan*, GAO-10-842T (Washington, D.C.: June 25, 2010).

¹⁶GAO, *Military Airlift: DOD Should Take Steps to Strengthen Management of the Civil Reserve Air Fleet Program*, GAO-09-625 (Washington, D.C.: Sept. 30, 2009).

with contract support during contingency operations. We testified in March 2010 that DOD had taken steps to institutionalize operational contract support by appointing a focal point to lead efforts, issuing guidance, and beginning to determine its reliance on contractors; but we also identified ongoing challenges associated with contractor support. These challenges include inadequate oversight and management of contractors, providing training on how to work effectively with contractors during operations, ensuring proper screening of local and third-country nationals, compiling reliable data on the number of contractors supporting U.S. forces in contingencies, and identifying contractor requirements.¹⁷

Our prior work related to Goal 3—ensure supportability, maintainability, and costs are considered throughout the acquisition cycle—includes reviews of weapon system life cycle management, depot maintenance, and sustainment costs. For example, while we have noted that DOD has placed increased emphasis on life cycle management, we reported recently that DOD lacks key information on weapon system operating and support costs and therefore may not be well-equipped to analyze, manage, and ultimately reduce these costs.¹⁸

Although all four goals of the *Logistics Strategic Plan* have aspects relating to supply chain management, Goal 4 explicitly addresses the need to improve supply chain processes. DOD identifies four success indicators and three performance measures for this goal. The success indicators address both the efficiency and effectiveness of DOD's supply chain management. For example, one success indicator states that enterprisewide solutions for the management of inventories and services will optimize total supply chain costs, and another states that effective demand planning will increase forecast accuracy and reduce costs. The performance measures, which are listed separately from the success indicators, include the percent of negotiated time definite delivery standards met globally (by combatant command), the percent of actual

¹⁷GAO, *Warfighter Support: Continued Actions Needed by DOD to Improve and Institutionalize Contractor Support in Contingency Operations*, GAO-10-551T (Washington, D.C.: Mar. 17, 2010).

¹⁸GAO, *Defense Management: DOD Needs Better Information and Guidance to More Effectively Manage and Reduce Operating and Support Costs of Major Weapon Systems*, GAO-10-717 (Washington, D.C.: July 20, 2010).

demand compared to forecasted demand,¹⁹ and number of days of customer wait time (time from submission of order to receipt of order) by lift area. The *Logistics Strategic Plan* lists 12 key initiatives that support Goal 4. The key initiatives focus on, among others issues, life cycle forecasting, the distribution process, automatic identification technology, and the department's human capital strategy for logistics personnel. We have reported on some of these issues. For example, we reported in 2009 that DOD has taken steps to implement automatic identification technologies, such as item unique identification and passive radio frequency identification, to identify and track equipment and supplies, but has experienced difficulty in fully demonstrating return on investment to the military services responsible for implementation.²⁰

The *Logistics Strategic Plan* also includes some information on how DOD plans to track progress. The plan lists success indicators and performance measures under each goal, and it states that the plan will be implemented by following the performance management framework found in the *Strategic Management Plan*. This framework contains six steps: plan, set targets, cascade measures, align processes, assess and report, and correct. By modeling the performance management framework of the *Logistics Strategic Plan* after that of the broader *Strategic Management Plan*, DOD officials expect that this alignment will naturally have a complementary, behavior-shaping influence on organizations subject to both plans.

¹⁹Although not noted as such in the *Logistics Strategic Plan*, the performance measure for the percent of actual demand compared to forecasted demand is described as under development in the *Strategic Management Plan*.

²⁰GAO-09-150.

Logistics Strategic Plan Lacks Specificity Regarding Strategies and Time Frames

Plan Lacks Detailed Information in Several Areas

Although the *Logistics Strategic Plan* contains some key elements of an effective strategic plan and provides unifying themes for improvement efforts, it lacks detailed information regarding strategies and time frames that would help to specify how and when goals will be achieved. In our review of Goal 4, which focuses on supply chain processes, we found that detailed information was lacking in several areas, which may limit the plan's usefulness as a tool for decision makers, including:

- **Performance measurement information.** While the plan presents three performance measures associated with Goal 4, it lacks baseline or trend data for past performance, measurable target-level information, or time frames for the achievement of goals or completion of initiatives. These are among the characteristics of successful performance measures that we have identified in our prior work.²¹ Such elements are needed to monitor the progress of implementation efforts and to determine how far DOD and its components must go to achieve success. In addition, there is not a clear linkage between the three measures and the success indicators or key initiatives under Goal 4. A senior DOD official stated that the performance measures in Goal 4 were included to present information about the overall functioning of the supply chain rather than specific improvement efforts.
- **Key concepts.** Some concepts in the plan express broad, positive ideas but are not fully defined. For example, Goal 4 states that processes should be "synchronized end-to-end," and a success indicator states that supply chain costs should be "optimized." The plan, however, does not define what aspects of the supply chain need further synchronization, how costs should be further optimized, or

²¹GAO, *Agency Performance Plans: Examples of Practices That Can Improve Usefulness to Decisionmakers*, GAO/GGD/AIMD-99-69 (Washington, D.C.: Feb. 26, 1999), and *Tax Administration: IRS Needs to Further Refine Its Tax Filing Season Performance Measures*, GAO-03-143 (Washington, D.C.: Nov. 22, 2002).

how DOD will gauge progress in these efforts.

- **Problems and capability gaps.** The plan does not include a discussion about overall departmentwide or DOD component-specific logistics problems or challenges, nor does it indicate the extent or severity of any identified capability gaps. Such information is necessary to establish a clear and common understanding of what problems and gaps the plan is trying to address. For example, the plan does not discuss logistics problems encountered during operations in Iraq and Afghanistan. We raised a similar concern about the 2008 *Logistics Roadmap*.
- **Resource needs.** The plan does not discuss resources needed to implement improvement efforts. As noted, an effective strategic planning process should be able to link resource needs to performance, prioritize initiatives and resources, establish investment priorities, and guide key resource decisions.

In the absence of more detailed information in these areas, the usefulness of the *Logistics Strategic Plan* for decision making may be limited. Measuring performance, for example, allows for tracking progress toward goals and gives managers crucial information on which to base their decisions. In addition, if the plan included information on problems, capability gaps, and resource needs, managers could use the plan as a basis for establishing priorities for formulating, funding, and implementing corrective actions. DOD has recognized the need to include some of this information, and the plan states DOD's intent to establish baseline performance and then measure that performance against interim targets through an annual assessment process.

**Plan Does Not Show
Explicit Links with Related
Supply Chain Management
Plans and Activities**

Although the *Logistics Strategic Plan* is linked to some broader strategic plans, it does not show explicit links with other strategic plans of supply chain or logistics defense components, and the link between that plan and some major logistics activities is not clear. These plans and activities could have a major role in shaping future logistics capabilities and functions. Some DOD components have issued their own strategic plans, but the linkages between the logistics-related issues in those plans and the *Logistics Strategic Plan* are not transparent. DOD states in the *Logistics Strategic Plan* that the combatant commands, military departments, and defense agencies should review and revise their respective strategic plans and associated goals, objectives, measures, and targets to reflect the *Logistics Strategic Plan's* broader priorities. Moreover, DOD indicates

that logistics leaders at the component level may find it necessary to realign operations and organizational structures to better integrate functional activities with larger end-to-end processes. However, the mechanism for ensuring that needed changes are made is not specified.

Further, the plan does not reflect some activities and information that could affect supply chain management. For example, the military services have ongoing supply chain management improvement efforts under way; however, there is no explicit mention of these service-level efforts or goals, initiatives, or measures, even though the services have important responsibilities for carrying out logistics and supply chain functions. In addition, officials from various components stated that the Joint Supply Joint Integrating Concept, co-led by the Joint Staff and DLA, is a major ongoing effort. However, this concept is not discussed in the *Logistics Strategic Plan*. The purpose of this concept is to guide development and employment of future joint supply capabilities.

It is not clear how the *Logistics Strategic Plan* will be used within the existing logistics governance framework to assist decision makers and influence resource decisions and priorities. For example, the plan states that the Joint Logistics Board and executive-level functional logistics governance bodies play critical roles in providing oversight and guidance to implementation of the *Logistics Strategic Plan*. While the Joint Logistics Board and other bodies may play critical roles in DOD's supply chain management improvement efforts, their roles are not defined in the plan. In addition, the organizations responsible for key initiatives included in the plan are not identified.

Similarly, the plan does not clearly define how oversight of plan implementation will occur. The plan briefly mentions the development of a Logistics Strategic Management Report that, along with a management dashboard of measures maintained by the Under Secretary of Defense for Acquisition, Technology and Logistics, will be used to report progress. However, the specific process or responsibilities for ensuring that corrective actions are taken in response to underperformance are not detailed in the plan. DOD officials stated that corrective actions are the responsibility of process or activity owners, while the responsibilities defined in the *Logistics Strategic Plan* include "implement corrective actions" as a responsibility of the Assistant Secretary of Defense for Logistics and Materiel Readiness. In its description of performance management, the plan states that accountable individuals will identify and implement corrections. Lastly, budget development is an important aspect of the existing governance framework, yet DOD has not shown how the

plan will be used to help shape logistics budgets developed departmentwide or by individual components.

In conclusion, strategic plans need to remain at a high enough level to provide a clear vision and direction for improvement, but without more specific information in the *Logistics Strategic Plan*, it will be difficult for DOD to demonstrate progress in addressing supply chain management problems and provide Congress with assurance that the DOD supply chain is fulfilling the department's goal of providing cost-effective joint logistics support for the warfighter.

Mr. Chairman, this concludes our prepared remarks. We would be happy to answer any questions you or other Members of the Subcommittee may have at this time.

Contacts and Acknowledgments

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BACKGROUND
HIGH-RISK LOGISTICS PLANNING: PROGRESS ON IMPROVING DEPARTMENT
OF DEFENSE SUPPLY CHAIN MANAGEMENT
JULY 27, 2010

BACKGROUND

Since 1990, the Department of Defense (DoD) supply chain management has been on the Government Accountability Office's (GAO) list of high-risk federal government programs needing urgent attention and transformation. Over the course of the GAO's examination of this issue, a variety of key problem areas have been identified, including inefficient supply inventory management and responsiveness to warfighter requirements.¹ Although DoD has demonstrated progress at improving supply chain management, it continues to face many of these and other challenges.

This is the fourth hearing the Subcommittee has held specifically on the high-risk area of DoD supply chain management. The purpose of this hearing is to examine DoD progress in addressing GAO concerns and the efforts that have been undertaken to work toward successfully removing the Department from the GAO high-risk list in the area of supply chain management.

DoD SUPPLY CHAIN MANAGEMENT

The Under Secretary of Defense for Acquisition, Technology and Logistics (USD (AT&L)), is accountable for overseeing supply chain management efforts across the DoD. Supply chain management is the operation of a continuous and all-inclusive logistics process, from initial customer order for materiel or services to the ultimate satisfaction of the customer's requirements.² DoD supply chain management consists of activities to purchase, produce, and deliver materiel to a force that is highly dispersed and mobile.³ Support to the warfighter is critical and DoD faces enormous challenges in managing such a complex logistics and supply chain network.

Although DoD has continually worked toward resolving long-term supply chain problems and removing itself from GAO's high-risk list for supply chain management, many challenges still remain. Throughout the years, DoD and the military components have developed multiple plans aimed at improving aspects of logistics, including supply chain management, but it has been unclear how these plans are aligned with one another.

¹ Government Accountability Office, *High-Risk Series, An Update*, Report to Congress, GAO-09-271, Jan. 22, 2009, p.63 available at: <http://www.gao.gov/new.items/d09271.pdf>.

² Government Accountability Office, *DoD's High-Risk Areas, Challenges Remain to Achieving and Demonstrating Progress in Supply Chain Management*, Testimony before the Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia, GAO-06-983T, July 25, 2006, p. 1 available at: <http://www.gao.gov/new.items/d06983t.pdf>.

³ *Ibid.*, p. 1.

DoD Supply Chain Improvement Plan

Encouraged by the Office of Management and Budget (OMB), DoD developed the Supply Chain Improvement Plan in 2005 to address some of its supply chain systemic weaknesses as a first step toward removing supply chain management from GAO's high-risk list.⁴ The plan encompassed initiatives that addressed three major key problem areas that GAO has identified based on audits since 1995 in DoD supply chain management process:

- Requirements Forecasting: difficulties in estimating acquisition lead times to acquire equipment spare parts leading to inefficient inventory management;
- Asset Visibility: problems with container management and inconsistent application of Radio Frequency Identification Technology (RFID); and
- Materiel Distribution: challenges in coordinating and consolidating distribution and supply support within a theater.⁵

Under the Improvement Plan, DoD made progress in developing and implementing its improvement initiatives. Some specific examples that targeted the key problem areas included:

- Joint deployment distribution operations centers in each geographic combatant command to help joint force commanders synchronize the arrival of supplies into a theater and assist in other aspects of distribution and supply support;
- Joint regional inventory and material management initiative aimed at streamlining and eliminating duplicate materiel handling and inventory layers with the Defense Logistics Agency (DLA) tasked to be the lead proponent for continued worldwide implementation; and
- The defense transportation coordination initiative aimed at improving the reliability, predictability, and efficiency of moving military freight among DoD's depots, logistics centers, and field activities.⁶

⁴ Government Accountability Office, *DoD's High-Risk Areas, Progress Made Implementing Supply Chain Management Recommendations but the Full Extent of Improvement Unknown*, Report to the Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia, GAO-07-234, Jan. 17, 2007, p. 1 available at: <http://www.gao.gov/new.items/d07234.pdf>.

⁵ Government Accountability Office, *DoD's High-Risk Areas, Efforts to Improve Supply Chain can be Enhanced by Linkage to Outcomes, Progress in Transforming Business Operations, and Reexamination of Logistics Governance and Strategy*, Testimony before the Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia, GAO-07-1064T, July 10, 2007, p. 4 available at: <http://www.gao.gov/new.items/d071064t.pdf>.

⁶ *Ibid.*, p. 7-8.

Overall, the Supply Chain Improvement Plan was a good first step toward putting DoD on a path to resolving long-standing supply chain management problems, but the Department continued to lack outcome-focused performance measures for many of the initiatives. GAO recommended that the Secretary of Defense direct the USD (AT&L) to develop, implement, and monitor outcome-focused performance and cost metrics for supply chain management and complete a comprehensive and integrated logistics strategy that would identify problems and capability gaps.⁷

DoD LOGISTICS ROADMAP

In July 2008, DoD released the Logistics Roadmap (the Roadmap), intended to serve as a coherent framework for improving its ability to deliver the right material to the right place at the right time.⁸ The Roadmap subsumed the Supply Chain Management Improvement Plan.⁹ It centered around numerous initiatives and programs that were under way in the Department and aligned them with logistics goals and objectives.¹⁰

The Roadmap was meant to identify the scope of logistics problems, track logistics improvements, and include specific performance goals, milestones, and metrics. Officials in the Office of the Secretary of Defense (OSD) characterized the Roadmap as an effort to portray where the department was headed in the logistics area, how it would get there, and what progress was being made toward achieving those goals. DoD officials had testified in 2007 that the Roadmap would include a detailed depiction of existing, planned, and desired capabilities to effectively project and sustain the joint force.¹¹

GAO concluded that the Roadmap fell short of meeting DoD's stated goals of providing a comprehensive and integrated strategy to address logistics problems department-wide.¹² According to GAO, the Roadmap's ability to contribute to supply chain improvement was

⁷ GAO-07-234, *supra* note 4, p. 23.

⁸ Logistics Roadmap, Department of Defense, July 23, 2008 available at: <http://www.acq.osd.mil/log/sci/roadmap.html>.

⁹ Government Accountability Office, *Defense Logistics, Lack of Key Information May Impede DoD's Ability to Improve Supply Chain Management*, Report to Congressional Committees, GAO-09-150, Jan. 12, 2009, p. 2 available at: <http://www.gao.gov/new.items/d09150.pdf>.

¹⁰ *Ibid.*, p. 4-5.

¹¹ Testimony by Jack Bell, Deputy Under Secretary of Defense (Logistics & Materiel Readiness), in a hearing entitled "From Warehouse to Warfighter: An Update on Supply Chain Management at DoD" before the Subcommittee on Oversight of Government Management, the Federal Workforce and the District of Columbia, 110th Congress 1st Session, July 10, 2007 available at: http://hsgac.senate.gov/public/index.cfm?FuseAction=Hearings.Hearing&Hearing_ID=a73c92a6-51aa-428e-84fb-c0a28a301157.

¹² GAO-09-150, *supra* note 9, p. 5.

impaired by the document's failure to identify the scope of logistics problems or gaps in logistics capabilities, include outcome-based performance measures to assess progress made, or clearly define how the Roadmap would be integrated into the department's logistics decision-making processes.¹³

Similar to the GAO recommendations on the Supply Chain Improvement plan, GAO recommended that the Secretary of Defense direct the USD (AT&L) to identify the scope of logistics problems; develop, implement, and monitor outcome-focused performance measures; and document specifically how the roadmap will be used in the decision-making processes.¹⁴

DoD STRATEGIC MANAGEMENT PLAN

DoD's efforts in improving supply chain management are closely linked with its overall defense business transformation efforts. The Fiscal Year (FY) 2008 National Defense Authorization Act (NDAA) established a Chief Management Officer (CMO) in the Department, who is statutorily responsible and accountable for overall business transformation efforts, and required a DoD strategic plan for business operations.¹⁵

In July 2008, DoD issued the initial Strategic Management Plan, which provided an overview of the department's overall strategic planning and management framework. The July 2009 update of the plan described the steps DoD planned to take to better integrate business with strategic planning and decision processes. In the plan, supply chain management was listed within one of the top five DoD business priorities and details included specific supply chain goals, outcomes, and measures and the key initiatives underway to achieve those goals.¹⁶

RECENT CONGRESSIONAL CORRESPONDENCE WITH DoD

In September 2009, Senators Voinovich and Akaka sent a letter to the Deputy Secretary of Defense expressing continued concerns about DoD's ability to effectively and efficiently manage and deliver critical materiel to military personnel.¹⁷ In particular, the letter noted that concerns over the Logistics Roadmap's lack of adequate outcome-based performance measures still had not been addressed more than a year after the Roadmap's release.

¹³ Ibid.

¹⁴ Ibid., p. 36.

¹⁵ National Defense Authorization Act for Fiscal Year 2008, Pub. L. No. 110-181 § 904.

¹⁶ Strategic Management Plan, Department of Defense, July 31, 2009 available at: <http://dcmo.defense.gov/documents/2009SMP.pdf>.

¹⁷ Letter from Senators Voinovich and Akaka of the Senate Subcommittee on Oversight of Government Management, the Federal Workforce and the District of Columbia to the Deputy Secretary of Defense William J. Lynn III, Sept. 29, 2009.

USD (AT&L) responded to the letter in December 2009 indicating that the department was developing a 2010 DoD Logistics Strategic Plan that would incorporate performance measures and serve as an update to the Roadmap.¹⁸ The letter further emphasized that the 2010 Logistics Strategic Plan would incorporate logistics-related priorities, outcomes, goals, measures, and key initiatives depicted in the 2009 Strategic Management Plan and that the USD (AT&L) would oversee the supply chain management improvement efforts identified in the plan.

DoD LOGISTIC STRATEGIC PLAN

The DoD continues to work towards improving the efficiency of its logistics processes and supply chain management issues. In July 2010, DoD issued the Logistics Strategic Plan (the Plan) aimed at improving enterprise-wide logistics by identifying goals, performance measures, and key initiatives that support contingency business operations and reform DoD's acquisition processes.¹⁹

The Logistics Strategic Plan is a broad, high-level document that updates the 2008 Logistics Roadmap. The plan does depict the logistics-related measures and key initiatives from the 2009 Strategic Management Plan but does not provide timelines, priorities, implementation details, or the resources needed to implement key initiatives. Furthermore, the plan does not identify gaps in DoD's logistics capabilities, continues to lack outcome-based performance measures and cost metrics, does not define how the plan would be integrated into the Department's logistics decision-making processes, and does not detail how the plan would be integrated with other DoD logistics strategies and concepts.

GAO has not been officially tasked to review the 2010 DoD Logistics Strategic Plan.

¹⁸ Response letter from Dr. Ashton B. Carter, USD (AT&L), to Senators Akaka and Voinovich, Dec. 4, 2009.

¹⁹ 2010 Logistics Strategic Plan, Department of Defense, July 2009.

RELEVANT LEGISLATION

National Defense Authorization Act for Fiscal Year 2008, Pub. L. No. 110-181 §904.

ADDITIONAL INFORMATION

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Strategic Management Plan, Department of Defense, July 31, 2009 available at: <http://demo.defense.gov/documents/2009SMP.pdf>

Logistics Strategic Plan, Department of Defense, July 2010

**Post-Hearing Questions for the Record
Submitted to Mr. Alan F. Estevez
From Senator Daniel K. Akaka**

**“High-Risk Logistics Planning: Progress on Improving Department of Defense Supply Chain Management”
July 27, 2010**

1. The Defense Logistics Agency (DLA) has booked more than 10,000 containers onto the Northern Distribution Network (NDN), accounting for 81 percent of all bookings.
 - a. What are the challenges and lessons learned from establishing the NDN?
 - b. How will the Department of Defense (DoD) maintain asset visibility and ensure good container management along these NDN routes?
 - c. Although the NDN is limited to the transit of non-lethal cargo, could these routes serve as back-ups for lethal cargo in the event that routes through Pakistan close?

Answer: For DLA, the NDN serves as a second supply route to support our warfighters engaged in Operation Enduring Freedom. It has proven invaluable when the enemy, natural disasters or unplanned events impeded the flow of materiel along the Pakistan Ground Lines of Communication (PAKGLOC). Additionally, the NDN acts as a relief valve on the PAKGLOC for sustainment cargo. In early 2010, at the direction of the United States Central Command (USCENTCOM), the NDN enabled DLA to shift more than 50% of sustainment cargo away from the PAKGLOC, thereby freeing up valuable space for unit and lethal cargo in support of the surge. Since January 2009, DLA booked more than 24,100 containers on the NDN, about 75% of the total volume transiting the route. Shifting that volume of cargo to the NDN was not without its challenges. The most notable challenge was a much longer transit time; the NDN taking approximately 100 days to arrive at the destination versus 70 days using the PAKGLOC.

In-transit visibility of the cargo on the NDN is provided at limited levels by the carrier across countries where use of our own tools and network is limited. However, once the cargo reaches Afghanistan, the cargo gets worked back into our network. While container management in combat zones remains an issue, USFOR-A, USTRANSCOM, and its subordinate units, along with OSD, are proactively working the challenge.

The categories of cargo (non lethal v. lethal) shipped on the NDN is subject to the approval of the Central Asian countries through which the NDN transits. While the capacity and capability to ship all categories of cargo on the NDN exists today, any change would require individual country approval that would have to be obtained through diplomatic negotiations led by the Department of State and USCENTCOM.

2. Support contractors provide essential logistics support to combat forces. However, DoD faces acquisition workforce challenges and may not be able to determine whether equipment and services are being provided by contractors in an efficient manner. What

logistics challenges does this create and how does it affect the development and use of effective logistics performance measures?

Answer: Key logistics performance measures are reflected in the terms and conditions of individual contracts and are evaluated regularly. Contractor equities are reviewed when the Department develops logistics performance measures to ensure the entire supply chain is encapsulated and accounted for in the measures and achievable standards for each element of the supply chain are established.

DoD has had a challenge in re-establishing a competent core of contractor officer representatives (CORs) who provide the contracting officer key assessments on contractor performance. Starting from a fill rate of approximately 30% in the combat areas of Iraq and Afghanistan, CORs are now filled at the 90+% rate. They must also be trained and subsequently certified by their contracting officer before assuming their duties. The Army for example, will not certify a unit for deployment until this requirement is met.

3. The Government Accountability Office (GAO) noted that storage capacity at logistics hubs in Afghanistan was at times insufficient to manage the volume of supplies and equipment. In written testimony, DoD stated that it was establishing a forward deployed warehouse in Afghanistan. Please provide details of this initiative and how it will mitigate storage space limitations in Afghanistan.

Answer: In July 2010, in response to a request from USCENTCOM and a Secretary of Defense Request for Forces (RFF), DLA successfully deployed the Defense Distribution Expeditionary Depot (DDED) capability to Kandahar Air Base. The expeditionary depot is a temporary storage and distribution capability supporting logistics operations until a permanent facility is constructed which will be called the DLA Depot Kandahar, Afghanistan (DDKA). The purpose of deploying the DDED was to decrease the amount of Over Ocean Transportation (OOT) costs that result from shipping materiel from the Continental United States to the theater of operations. Approximately 16 acres of land were provided on Kandahar Air Base to accommodate DLA's expeditionary distribution force to support Service components with uniquely identified materiel defined as high demand requisitioned materiel. The plan calls for supporting our customers through the DDED until a USCENTCOM- funded military construction facility is completed in July 2011. At that time, DLA will transition DDKA operations to a government owned and contractor operated fixed facility. The original stock for DDED includes 545 National Stock Numbers (NSNs) which will expand to approximately 6,200 NSNs supporting Service components. Additional benefits will include reduced storage space within supply support activities (SSAs) for materiel positioned forward to a centralized location. Additionally, DLA is researching storage of the US Army Serviceable Excess in Afghanistan, again creating an opportunity for even more efficient use of space for excess materiel.

4. DoD has previously indicated that the 2008 Logistics Roadmap would be a living document that would be continually updated to incorporate progress on logistics initiatives. Will there be future updates to the Roadmap or has it been subsumed by the 2010 Logistics Strategic Plan?

Answer. The Department's logistics strategic planning has evolved from the 2008 DoD Logistics Roadmap to the 2010 DoD Logistics Strategic Plan (LSP). The LSP aligns the Department's logistics strategic guidance in the 2010 Quadrennial Defense Review Report and with the 2009 DoD Strategic Management Plan logistics-related business priorities, outcomes, goals, measures, and key initiatives. The LSP establishes an approach for measuring, tracking, and reporting progress toward achieving the goals. Recurring assessments will be conducted of the relevance, effectiveness, and performance of ongoing and planned key initiatives. Changes will be reflected in updates to the LSP, in lieu of the Roadmap.

5. The use of Radio Frequency Identification (RFID) technology has improved asset visibility throughout the DoD supply chain, which positively impacts the readiness and operational capabilities of our military forces. What are the security risks to U.S. Forces should the enemy illicitly attempt to read or store information from RFID tags in the field, and what physical or electronic security measures are in place to mitigate these risks?

Answer: The DoD uses active RFID tags for unclassified data only. It is the same data that is contained in the manifest available to the commercial carriers who transport the cargo. Therefore, the mission impact of unauthorized reading of the tag data is significantly reduced. Regarding physical security of the cargo, the active RFID tag content data cannot be read while the cargo is physically moving. When the cargo is at stationary points along the route, the enemy would need to have a DoD-specific RFID interrogator and be in close proximity to read the content data.

**Questions for the Record
Submitted to Mr. Alan F. Estevez
U.S. Department of Defense
From Senator Thomas R. Carper**

**“High-Risk Logistics Planning: Progress on Improving Department of Defense Supply Chain Management”
July 27, 2010**

1. I recognize the enormous challenges faced by the Department of Defense and the military services in both operating and modernizing its supply chain. We are fighting two wars, and have very large logistics systems tasked with ensuring that our front line forces have everything they need. However, the problems with our military inventory systems are hardly new.

Do you have a timeline for fixing the many problems faced by our supply chain and inventory management systems? Will these improvements result in a reduction of the very large excess inventory and inventory shortage numbers reported by the GAO? Does the DOD have targets and timelines for reducing both the on-hand and on-order surpluses and shortages of inventories?

Answer: The Department has a plan for inventory management improvements with actionable targets and timelines. The DoD Comprehensive Inventory Management Improvement Plan's organization is targeting reductions in both on-hand and on-order surpluses as well as identifying enhancements to demand forecasting, which should improve any shortages of inventories. This Plan builds on the ongoing efforts of the Service Components and identifies the appropriate actions and targeted objectives that support eight individual plans, including (1) demand forecasting, (2) total asset visibility and multi-echelon modeling, (3) on-order excess, (4) economic retention, (5) contingency retention, (6) storage and direct vendor delivery (DVD), (7) items with no demand, and (8) disposal reviews. While many actions are underway, the more complex actions will be completed by FY2013. Full institutionalization of all actions will occur with the modernization of system targeted for FY2014. Additionally, metrics and targets have been developed or are being developed to measure progress in completing the numerous corrective actions in the plan.

2. I was surprised to see that the military services have substantial numbers of items on order, but already determined as excess.
 - a. Why can't the inventory managers cancel orders when it is determined that there is excess?

Answer: Inventory managers can and do cancel orders when it is determined that there is excess, although the phase of the contract process is key to that decision. Orders that are not yet awarded are cancelled when needs have

changed and the order is no longer needed. However, once an order has been placed on contract, the Department can incur contract termination costs that must be considered in the termination decision. In this case, inventory managers must consider the cost to hold inventory against the cost to terminate and repurchase inventory if a future need occurs. In fact, when the price of the undelivered balance of the contract is less than \$5,000, the Federal Acquisition Regulation states that the contract should not normally be terminated for convenience, but should be permitted to run to completion. Therefore, a termination action is pursued if determined to be cost effective and in the best interest of the U.S. Government. The Department's Inventory Management Improvement Plan, which will be provided to Congress in October, contains actions (i.e., timeline for terminating contracts, establishing optimal quantities for termination, and approval levels) to improve the process of reviewing contracts for termination and has actionable targets and timelines for reducing on-order excess.

- b. Also, my staff tells me that the current systems only review on-order inventory on a quarterly basis - that is, every three months the inventory managers review the items ordered and match them to current needs. However, I also understand that in the private sector, major companies like Target or Wal-Mart typically update their orders daily, or even in real-time.

Will we see the new military inventory systems, now planned for implementation over the next several years; include abilities similar to those found in the private sector?

Answer: The Department's policy dictates that inventory managers will take timely action to reduce or cancel inventory orders during the normal forecasting cycle for the item; in other words, quarterly for some items and monthly for others. The review of inventory orders is part of the normal requirements review process for all stocked items and is paced to avoid churn in the procurement process that would threaten timely execution of purchases of critically-required materiel. Currently, DoD inventory systems are designed to adjust inventory orders outside the normal forecasting cycles depending upon the magnitude of the change. The business practices at Wal-Mart and Target actually vary by supply chain segment. In the same manner, DoD is working to capture and implement commercial best practices appropriate to its varying supply chain segments.

**Post-Hearing Questions for the Record
Submitted to Mr. Alan Estevez
From Senator George V. Voinovich**

‘High-Risk Logistics Planning: Progress on Improving Department of Defense Supply Chain Management’

1. Earlier in the Subcommittee’s examination of this issue, former Secretary of Defense Donald Rumsfeld estimated that the Department could save a significant percentage of its operating expenses through more efficient logistics practices.
 - a. As the Department seeks to reduce overhead and trim costs, what savings could result from effective implementation of the Logistics Roadmap and the 2010 Department of Defense (DOD) Logistics Strategic Plan by all DOD components?
 - b. Can the Department quantify the aggregate cost-savings and cost-avoidances that have resulted from improved logistics processes? If so, please share this data.

Answer: The Department is realizing efficiencies from the implementation of initiatives identified in its strategic plans and improved logistics processes. Examples of how LSP initiatives and improved logistics processes are yielding improved performance to meet operational customer requirements, increased effectiveness, and increased efficiency include:

- The Defense Transportation Coordination Initiative (DTCI) has been implemented at 85 of 95 sites in the continental United States (CONUS) resulting in avoidance of approximately \$91 million in second destination transportation expenses. Additionally, on-time delivery is running better than 96%, loss and damage is less than .01%, and pick-up and delivery visibility over all DTCI shipments occurs within 2 hours of their actual occurrence. As DTCI is fully implemented within CONUS, expanded to additional transportation modes, and implemented outside CONUS, additional cost savings and cost avoidances will be realized.
- The establishment of a distribution depot in Afghanistan is projected to reduce the sustainment airlift requirement into Afghanistan by approximately 38 percent.
- The Department has reduced its inventory that is not needed for budgeted requirements or future use from \$32.5 billion in FY2004 to \$10.3 billion in FY2009 (a reduction from 29 percent to 11 percent of total inventory).
- The overall DoD storage requirements for all secondary item inventory (spares, repair parts and materiel) have decreased from 100.4 million cubic feet to 79.8 million cubic feet during the period FY2005-FY2009 (a 20 percent reduction).

- Customer Wait Time (CWT) performance has been reduced from 22.9 days to 16.1 days since FY2004.

- From FY06-09, using Readiness-Based Sparing (RBS) models, the Navy saved approximately \$216 million due to better allocation of spares across the six carriers in the program, and reduced high-priority requisitions by 50 percent.

2. Following the Subcommittee's July 2007 hearing, General Norton Schwartz provided me the Department's Business Case Analysis for adoption of Radio Frequency Identification (RFID). While the case for RFID appears persuasive on paper, some service branches have been reluctant to adopt this technology because of the significant initial investment RFID requires.
 - a. Please discuss the progress that has been made with respect to RFID.
 - b. How has your office helped to demonstrate to the service branches the return on investment that this technology provides?

Answer: The Department's 2005 Business Case Analysis identified passive RFID implementation should yield savings from reductions in lost material in transit, inventory induction mistakes, duplicate orders resulting in less issuing costs and transportation costs, and eventually labor expenses.

The Department is expanding the use of active RFID, providing in-transit visibility of shipments going into and out of the theater of operations--a key solution to improving intra-Afghanistan visibility of intra-theater shipments. Currently, worldwide, 7,100 nodes, including mobile readers on trucks, in 40 countries comprise the Radio Frequency-In Transit Visibility (RF-ITV) network, are collecting more than 237,000 tag reads per week.

Implementation of Passive RFID technology is less mature; however, the Military Services and DLA continue to expand implementations of passive RFID to enhance their business processes. For example:

- DLA has developed a streamlined process for receiving materiel using passive RFID, decreasing receiving process errors by 62% on RFID-enabled receiving lanes and is rolling out the new process across all of its distribution depots.
- Air Force achieved a 47% reduction in the time to perform an inventory at Tinker AFB with a passive RFID-enabled real-time location system and is expanding implementation of the technology to several more key sites.

Demonstration to the service branches of the return on investment began with the development of the initial business case for RFID back in 2005. Additionally,

implementing passive RFID at all of the CONUS distribution depots, the CONUS strategic aerial ports and key customer locations laid the foundation for a passive RFID-enabled supply chain. Annual AIT summits and Executive Working Groups are used to maintain a Department focus on RFID implementation and usage.

3. When will the Department achieve full implementation of existing requirements for Item Unique Identification?

Answer: The Joint Logistics Board Task Force determined the IUID benefit is in the utilization of data to track and account for critical and sensitive materiel. To that end, the Department is developing the detailed functional requirements. The Department has also implemented the requirement for IUID in new contracts. Updates, to include the IUID requirement in existing contracts, will occur as those contracts expire. Additionally, the Military Services and DLA are incorporating the functional requirement for IUID serialized item management in their respective enterprise resource planning (ERP) systems. Though the ERP implementations vary, IUID capability is projected to be operational by 2015.

4. Since the Subcommittee last met to examine DOD supply chain management, Chief Management Officers have been designated within the Office of the Secretary of Defense, as well as within each service branch.
 - a. What role do the Department's Chief Management Officer and service branch chief management officers play in supply chain management improvement efforts?
 - b. To what extent have these new leadership positions improved the Department's ability to confront and solve logistics challenges?

Answer: The Deputy Secretary of Defense, in his role as the Department's Chief Management Officer (CMO), leads Departmental efforts to better integrate business with strategic planning and decision processes. Through the 2009 DoD Strategic Management Plan (SMP), the CMO has articulated the Department's top business priorities and desired outcomes, established goals to achieve the outcomes, and identified measures and key initiatives associated with the goals.

These new leadership positions have helped improve the Department's ability to confront and solve logistics challenges. The CMOs of the Military Departments and each Under Secretary of Defense have core responsibility for business operations and maintain internal business priorities while supporting short-term and long-term goals, measures, and initiatives in alignment with the Department's enterprise priorities.

5. The Logistics Strategic Plan provides high-level analysis of the Department's logistics strategy. How does the Department intend to translate this general discussion into specific guidance for those service branch and agency components that are tasked with direct implementation of supply chain management improvement initiatives?

Answer: The Logistics Strategic Plan (LSP) is the authoritative overarching framework for improving supply chain management strategy. It is synchronized and consistent with Department's top-level strategic direction of the QDR objectives, is in alignment with the Department's SMP which establishes business priorities, aligns performance outcomes to business priorities, and identifies supporting goals, measures and key initiatives. Similarly the DOD Components strategic plans are in alignment with the Department's top level strategic direction and initiatives. Additionally, these initiatives will effect DoD policy changes that will cascade into the Component level procedures.

6. From your perspective as a senior career leader in the Office of Logistics and Materiel Readiness, what effect, if any, has the transition in presidential administrations had on supply chain improvement efforts?

Answer: The Department has maintained a consistent focus on improving our supply chain through the transition of presidential administrations. As noted in my testimony before the committee in July, our focus has never wavered from the mission of providing globally responsive, operationally precise, and cost-effective joint logistics support for the projection and sustainment of America's warfighters. We have executed the drawdown of forces in Iraq while providing full spectrum support to the efforts in Afghanistan. Every day, DoD logisticians support troops forward deployed in some of the world's most demanding environments and are frequently called upon to support operations on short notice in parts of the world where we have little or no presence, including responding to no-notice contingency and humanitarian relief efforts, like those currently underway for the Pakistani flood victims. All the while, we are taking the necessary actions as outlined in the Logistics Strategic Plan and the Comprehensive Inventory Management Improvement Plan to support the warfighter at the best value to the taxpayer.

7. I understand the importance of employing contractors to assist in the transportation of supplies and equipment to deployed troops. However, I am disappointed that despite the Government Accountability Office's (GAO) first addressing this issue in 2003, DOD has yet to develop a systematic method for determining the number of contractors that are needed, or are currently present, in contingency environments like Afghanistan. As discussed in a recent GAO report, this lack of contractor forecasting and visibility poses serious challenges for distributing supplies in Afghanistan. Please explain how DOD plans to develop the capacity to accurately track the number of contractors that are supporting the mission in Afghanistan and in future contingency operations.

Answer: Since 2007, the Synchronized Predeployment and Operational Tracker (SPOT) has served as the joint web-based database for information on contractors deploying with the force. While we have confidence in the accuracy of U.S. and third country national (TCN)

contractor data in both Iraq and Afghanistan in SPOT, we recognize the need to ensure we are fully capturing the required data on local national contractors. We continue to rely on the DoD manual quarterly census for our contractor personnel numbers, which provides a reliable “snapshot” in time, and, in parallel, we continue to push towards the automated system.

- A number of challenges keep us from achieving full participation in SPOT, they include: 1) a lack of assured internet connectivity, 2) the rapid buildup of forces in Afghanistan, 3) implementation of the Departments Counterinsurgency (COIN) strategy, 4) the lack of Afghan national identity cards, and 5) the use of a simplified contracting system.
- As a web-based system, SPOT naturally relies upon internet connectivity, however, the geography, immature telecommunications’ infrastructure and dispersed nature of operations in Afghanistan, in particular, pose an ongoing challenge to consistently and effectively employ SPOT.
- Societal factors also influence SPOT registration. The culture nuances of Afghanistan society have precluded the issuance of a commonly accepted form of national identification. In Afghanistan it’s not unusual for numerous individuals to share the same name, city and year of birth, thus complicating the categorizing of an individual in SPOT by these data elements. Additionally, many Afghan local nationals contracted by the U.S. government do not have a need to access U.S. controlled facilities or data system and therefore, they do not require a base access card or a letter of authorization (LOA) to perform their duties. Lacking these enforcement mechanisms, the ability to capture this population in the automated system is significantly challenged.
- In order to better account for local national contractors, who have to date been lagging in SPOT registration, we have integrated SPOT with the Biometric Identification System for Access (BISA), an access control system that was already being used extensively in Iraq. Last year, we transitioned from a traditional BISA card to a SPOT enabled BISA card by adding an interoperable barcode. This allows us to populate basic individual data in SPOT and track movements. We are now working with the BISA Program Manager to add a field for a contract number to BISA which will provide us with the ability to cross reference individual local national contractor personnel to their contract.
- In Afghanistan, a different system, the Biometric Automated Toolset (BAT) card is used for base access. The BAT system collects fingerprints, iris scans, facial photos and biographical information of persons of interest and stores them in a searchable data base. As with BISA in Iraq, we are now working to federate the BAT system with SPOT.
- Further, we have now established a Secret Internet Protocol Router Network (SIPRNET) functionality that will allow classified and sensitive contract and contractor information to be accessible through the database. The United States Agency for International Development (USAID), in particular, had security concerns about registering grantees in an unclassified U.S. sanctioned database. With the fielding of the SIPRNET SPOT, these concerns have been addressed.

- The expanded functionality of SPOT and federation with other databases and biometric registration systems serves to not only improve accountability and visibility of contractors in current operations, but also allows the Department to plan for and execute future operations more efficiently.
 - In terms of forecasting and planning for contracted support, the Department is integrating contractor support estimates into existing adaptive planning systems to allow for the same level of fidelity in planning for contracted support as for that of organic forces. Additionally, the Department is ensuring that operational contract support requirements are considered in force planning scenario development and joint force assessments.
8. GAO's January 2009 review of the Logistics Roadmap identified a number of remedial actions the Department planned to take in order to address Roadmap deficiencies, including: the Roadmap's failure to identify the scope of logistical challenges and existing capability gaps; the lack of outcome-based performance metrics for 19 of the 22 objectives included in the Roadmap; and the absence of clear mechanisms for integrating the Roadmap into Departmental decision-making processes and structures.
- a. Please discuss the progress and current status of remedial actions in these three areas.
 - b. How have revisions to the Logistics Roadmap influenced development of the Logistics Strategic Plan?

Answer: The Department has on-going activities to identify the scope of logistics problems or gaps in logistics capabilities, establish outcome-based performance measures that would enable us to assess and track progress toward meeting the Department's goals and objectives and is committed to integrating the Logistics Strategic Plan (LSP) goals and measures into DOD's logistics decision-making and business processes.

The Department has institutionalized a number of processes to identify logistics challenges on a continuous basis. For example, Capability Based Assessments identify capabilities required; identify gaps; assess risk associated with gaps; prioritize gaps; provide recommendations for addressing gaps and identify risk mitigation strategies. Issue Priority Lists, annually provided by COCOM Commanders, identify their highest priorities and define shortfalls in key areas that may adversely impact mission.

The above activities, complimented by the experience with the Roadmap and evolution of the Department's overarching strategic guidance, have influenced the LSP in creating a strategic plan that reflects the Department's current focus and priorities. The LSP addresses key initiatives selected for their immediate and direct effect on the Department's ability to fulfill its strategic warfighting imperatives, impact on the Department's ability to provide support to the warfighter, and potentially high return on investment.

9. Please discuss the process used by DOD to examine, and incorporate, lessons learned from past logistics operations. Please provide specific examples demonstrating how the critical examination of past supply chain inefficiencies and the development of lessons learned have improved supply chain processes.

Answer: The Department leverages the lessons learned from logistics operations. Operations are analyzed to identify best practices and modify existing practices, policies and procedures where appropriate to insure we are operating at peak efficiency while protecting the taxpayer resources. The Joint Logistics Board, made up of senior logistics leaders, integrates and synchronizes logistics processes to improve supply chain performance.

The following are three examples where critical examination of past performance has improved supply chain processes.

The establishment of the Deployment Distribution Operations Centers (DDOC): The Department recognized the challenges it was facing in support of ongoing operations in Iraq and Afghanistan and took specific actions to improve material flow throughout the supply chain. In direct response to those challenges, the DDOC was established in the Central Command (CENTCOM) area of responsibility (AOR) to streamline processes and provide overall accountability of material distribution. The DDOC supports Combatant Commanders' operational objectives by synchronizing strategic and multimodal resources to optimize force deployment and sustainment, and maximizing combat effectiveness, disaster relief, and humanitarian support efforts through improved end-to-end (E2E) distribution and visibility.

The Distribution Process Owner (DPO) Strategic Opportunities (DSO): The DSO initiative comprises improvement areas (process improvements, air and surface optimization, materiel positioning, and distribution network optimization) to reduce costs within the DOD supply chain while simultaneously improving service levels to the Warfighter. The initiative is projected to save between \$149-443M in supply chain cost annually with commensurate increases in customer service levels of 17-35%. The process improvements are based on practices commonly used in commercial supply chain organizations today.

The DLA Defense Distribution Expeditionary Depot (DDED): The DDED capability is being implemented at Kandahar Air Base. The expeditionary depot provides a temporary storage and distribution capability supporting logistics operations until a permanent facility is constructed. Deploying the DDED decreases the amount of Over Ocean Transportation (OOT) shipping costs from the Continental United States to the theater of operations.

10. Since its establishment by the Fiscal Year 2010 National Defense Authorization Act, which was enacted into law in October 2009, the position of Assistant Secretary of Defense for Logistics and Materiel Readiness has been vacant. Does the Administration intend to submit for the Senate's consideration the nomination of an individual to fill this position, and if not, why not?

Answer: The Assistant Secretary of Defense for Logistics and Materiel Readiness is not a newly established position; this position was the Deputy Under Secretary of Defense for Logistics and Materiel Readiness, which was also a Presidentially Appointed Senate Confirmed position. The Department is actively looking for a fully qualified individual to fill the position of Assistant Secretary of Defense for Logistics and Materiel Readiness. During this period of vacancy, the Principal Deputy Assistant Secretary of Defense for Logistics and Materiel Readiness continues to lead the Department's efforts in providing excellent logistics support to the warfighter while pursuing and achieving effective and efficient logistics improvements.

11. The Logistics Strategic Plan directs combatant commands, military departments, and related agencies to review and revise their existing logistics-related strategic planning documents to achieve consistency with the broader Logistics Strategic Plan. Who will be tasked with overseeing this review and revision process to ensure proper alignment?

Answer: The Office of the Assistant Secretary of Defense for Logistics and Materiel Readiness (OASD(L&MR)) is tasked to oversee the implementation of the key plans and actions to improve the Department's logistics performance.

**Post-Hearing Questions for the Record
Submitted to Mr. Jack Edwards
From Senator George V. Voinovich**

“High-Risk Logistics Planning: Progress on Improving Department of Defense Supply Chain Management”

1. In April 2010, Under Secretary of Defense for Acquisition, Technology, and Logistics Ashton Carter delivered remarks before the Defense Logistics Modernization Conference in Washington, DC, in which he observed “if we don’t...get ourselves in [Afghanistan] and get set, we can’t have success.” Please share your perspective on how the Department’s past strategic planning efforts—from the Focused Logistics Roadmap forward—have prepared the Department to meet this challenge.

Afghanistan has presented several challenges to supporting military operations. Challenges we have identified in our prior work include (1) difficulties with transporting cargo through neighboring countries and Afghanistan; (2) limited airfield infrastructure within Afghanistan; (3) lack of full visibility over supply and equipment movements into and around Afghanistan; (4) difficulties in synchronizing the arrival of units and equipment in Afghanistan; (5) lack of coordination, as well as competing logistics priorities, in a coalition environment; and (6) uncertain requirements and low transportation priority for contractors. Although the Department of Defense (DOD) has recognized many of these challenges, it is unclear what role past strategic planning efforts have had in preparing the department to meet these challenges. First, past strategic plans, including the *Focused Logistics Roadmap*, the *Supply Chain Management Improvement Plan*, and the 2008 *Logistics Roadmap*, generally addressed broad-based goals and capabilities and were not specifically focused on individual military operations such as Afghanistan. In addition, we have consistently noted that DOD’s past strategic plans have not identified outcome-oriented performance metrics that would enable the department to track and measure improvements in specific areas that affect the warfighter, such as requirements forecasting, distribution, and asset visibility. Further, while past strategic plans such as the 2008 *Logistics Roadmap* have listed numerous ongoing programs and initiatives, it is unclear how the department used that document to guide and oversee logistics improvements.

2. The Government Accountability Office (GAO) has long stressed the importance of including outcome-based performance metrics in strategic planning documents, but each logistics planning document issued by the Department of Defense (DOD) has failed to include adequate outcome-based performance metrics. In GAO’s view, why has DOD encountered such difficulty in developing appropriate performance metrics, and how can this deficiency be addressed?

In prior reviews, we have found a lack of outcome-oriented performance measures in DOD’s recent logistics and supply chain strategic plans and have recommended that such measures

be added in order provide a comprehensive management framework to measure results. We have also noted a lack of cost measures that would enable the department to track and demonstrate efficiency improvements. DOD, in its comments on our recommendations, has agreed. In several instances, we reported that DOD's stated performance measures were not included in the plans because of tight timeframes or the measures had not been identified. In our written testimony, we noted the new *Logistics Strategic Plan* calls for creating a performance management framework. However, the performance measures identified for supply chain management in the plan lack baseline or trend data for past performance, measurable target-level information, or time frames for the achievement of goals or completion of initiatives. These are among the characteristics of successful performance measures that we have identified in our prior work. Effective performance measures are critical for demonstrating progress toward achieving results and providing information on which to base organizational and management decisions. Such measures are important management tools for use at all levels of an organization. In our prior reviews, we reported that DOD officials have encountered difficulty in identifying and applying measures to quantify results of supply chain initiatives and practices, specifically the availability of standardized, reliable data from noninteroperable systems. Due to the resources at stake and impact on warfighter support, we continue to believe that it is important for DOD to identify and fully develop outcome-based performance and cost measures in order to demonstrate results and improve effectiveness and efficiency, regardless of the difficulty of that task.

3. In your testimony, you indicate that progress in the area of supply chain management depends, in part, on progress in other DOD High-Risk areas, including financial management and business systems modernization. In order to achieve such concurrent progress, to what extent should high-risk improvement plans be aligned? If such alignment is desirable, is the 2010 DOD Logistics Strategic Plan linked appropriately with similar plans in related High-Risk areas?

Successful resolution of weaknesses in supply chain management is integrally linked with improvements in some of DOD's other high-risk areas, including financial management and business systems modernization, as well as overall defense business transformation. We have consistently noted that DOD's business transformation efforts should be sufficiently aligned so as to provide a comprehensive, integrated strategy that will provide decision makers with the means to effectively guide improvement efforts—including those for supply chain management—and the ability to determine if the efforts are achieving the desired results. In reviewing past DOD logistics and supply chain management plans, we found that while DOD and its component organizations have had multiple plans for improving aspects of logistics, the linkages among these plans were not clearly shown. Examples of these plans included the *Enterprise Transition Plan* and component-level plans developed by the military services and the Defense Logistics Agency. However, it should be noted these statements predate the establishment of a Chief Management Officer structure within DOD and the issuance of the department's 2009 *Strategic Management Plan*. The intent of that plan is to better integrate business operations with strategic planning and decision processes and to manage performance across the department's business operations, which include several high-risk areas such as supply chain management. The legislative requirements for the

Strategic Management Plan, as set forth by the National Defense Authorization Act for Fiscal Year 2008, would allow the plan to serve as the vehicle for ensuring that the goals, initiatives, and measures for all business operations are aligned. While DOD states that the *Logistics Strategic Plan* supports other recent strategic planning efforts in the department, including the completion of the 2010 *Quadrennial Defense Review* and the publication of the 2009 *Strategic Management Plan*, the *Logistics Strategic Plan* does not acknowledge functional or component-level plans from other high-risk areas or the critical role that improvements in these other high-risk areas can have toward resolving problems in supply chain management.

